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ESS WEEK
March 6

BusinessWeek

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THE TECHNOLOGY PARADOX

Cellular phones are giveaways. Software comes free. Laptops have the power of mainframes.

As high technology becomes dirt cheap, producers must find new ways to prosper. They have.

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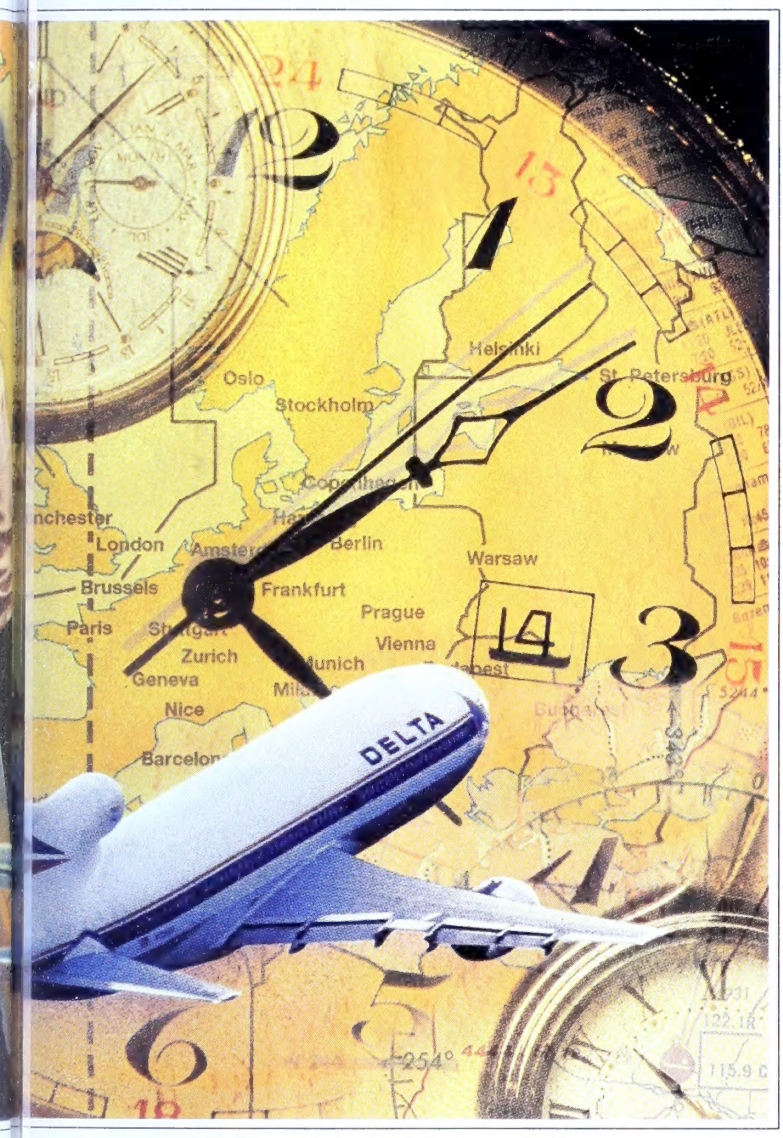

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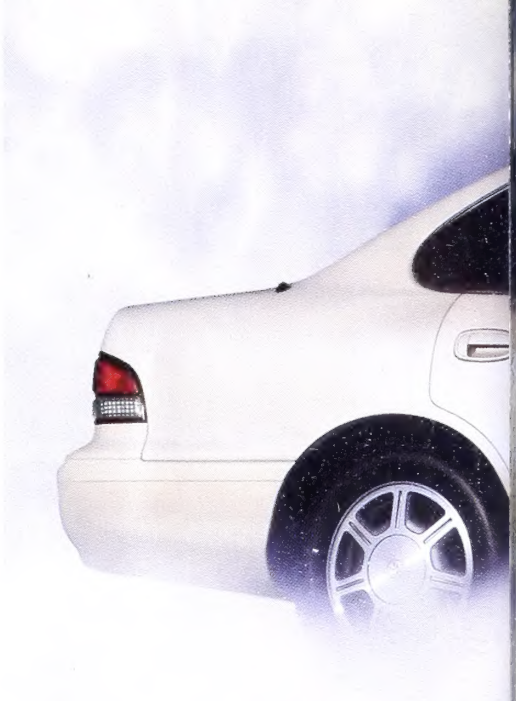

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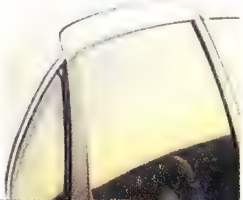

ı-mounted glass and panels make Avalon for the ear and more pleasing for the eye.

A liquid filled engine mount makes a quiet, all-aluminum engine even quieter.

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Up Front

EDITED BY LARRY LIGHT, WITH RUTH COXETER

THE DEAL MILL

MICROSOFT AND INTUIT MAY NOT DO IT

IS THE MICROSOFT-INTUIT deal a goner? Could be. Some company insiders are already resigned to a thumbs-down from the feds for antitrust reasons. Wall Street speculation is rife. Ominously, the Justice Dept. already is deep into a rare second round of fact-finding on the $1.5 billion deal. That has in turn forced Intuit, the leader in personal financial software, to extend its deadline for approval of the buyout by two months, to May 30.

COOK: *Staying put?*

When the offer was made, in September, investors were giddy. Intuit's stock jumped to more than $70 per share from its previous $40 range. The two companies crowed that they would be in the vanguard of a profitable new business—online financial management. Another plus: Intuit CEO and founder Scott Cook would be Microsoft's electronic-commerce honcho.

But on Feb. 14, U.S. District Court Judge Stanley Sporkin rejected a Justice Dept.-Microsoft antitrust settlement as too lenient. Legal experts say the Intuit deal could be a casualty of Justice's battle with Sporkin. They figure Justice, which is appealing the judge's decision, may block the Intuit deal to avoid looking like the patsy Sporkin makes it out to be.

Tea-leaf readers aren't encouraged by the delay. No wonder Intuit's stock has sunk to around $63—far below the $80 acquisition payout. Still, both companies say they remain hopeful the deal will succeed—one day. *Amy Cortese*

FED FOLLIES

CHIEF OF THE OPEN MOUTH COMMITTEE

IT WAS ALAN BLINDER'S preemptive strike. Or so say veteran Fed watchers after Vice-Chairman Blinder spoke on Federal Reserve policy on Feb. 17, just five days before Fed Chairman Alan Greenspan's annual testimony to Congress on the central bank's monetary goals. "It was unusual," says one former Fed governor. "Greenspan was probably miffed." Neither man would comment.

BLINDER: *Scene stealer*

The timing of Blinder's blabbing is unusual for the traditionally mum Fed. But he's the leading advocate of openness. That's why the central bank's policymaking Federal Open Market Committee is turning into the Open Mouth Committee. Blinder told the Bond Club of Virginia that the Fed may be near the end of its yearlong series of interest-rate hikes. Greenspan, in Feb. 22 testimony, was more circumspect about the future.

Blinder scheduled the speech thinking it would come after Greenspan's testimony. When the chairman's appearance was delayed, he went ahead anyway. Fed sources say Blinder didn't mean to upstage Greenspan, but wants to signal his independence. *Owen Ullmann*

TALK SHOW "I'll fight a minimum-wage increase with every fiber of my being." *—House Majority Leader Richard Armey (R-Tex.)*

"That's the type of passion you reserve for trying to prevent a nuclear war." *—Senator Paul Wellstone (D-Minn.)*

NEWTONIAN ECONOMICS

GRIPES GET THEIR DAY IN CONGRESS

REGULATIONS RUN AMOK ARE a Gingrichite pet peeve. So the new Republican majority plans a monthly Corrections Day, when local governments and businesses can ask the House for relief. The Senate, which must concur in any rule-axing, is mulling a similar move. Its point man on regs, Senator Don Nickles (R-Okla.), likes the idea. The first Corrections Day, decried by environmentalists and liberals as gutting vital public safeguards, will take place in early spring. Meanwhile, the House expects to vote Feb. 24 to freeze new rules.

House Speaker Newt Gingrich (R-Ga.) got the Correction Day notion after San Diego complained about Washington's forcing it undertake a $10 billion se age-plant upgrade. The grip Treated effluent must pure enough to dump into lake, but the city pours wastewater into the Paci While the feds cut San Die some slack, they say th must be fair to other citi

SAN DIEGO: *Wastewater blues*

Another endangered ru A large crew (7,400) of fed al meat inspectors must ey ball carcasses. Critics wa to switch to less labor-inte sive, more accurate microb testing—which the feds agr with. *Mary Beth Reg*

THE LIST WONDERS OF TOMORROW

The hot technologies for the next decade will bring pocket-size computers, insulin pumps embedded in diabetics' bodies, and anti-aging creams that really work. According to Battelle Technology Management Group, the most striking feature of these wonders will be advances in min aturization in fields ranging from medicine to electronics. The leading new technologies will be both practical and affordable, say the Battell researchers.

SUPER-INSULATOR

TOP 10 TECHNOLOGIES FOR 2005

As ranked by Battelle

1. **GENOME MAPPING** Gene probes, predicting who will get what disease
2. **SUPERMATERIALS** Rugged, adaptable, for communications, energy, transi
3. **COMPACT ENERGY SOURCES** Powerful, long-lasting fuel cells, batteries
4. **HIGH-DEFINITION TV** Digital video, gives better computer imaging
5. **HANDHELD ELECTRONIC DEVICES** Phone, fax, computer together
6. **MANUFACTURING SMART SYSTEMS** Sensor-driven assembly lines
7. **ANTI-AGING PRODUCTS** Creams erase wrinkles, gene tinkering slows agin
8. **TARGETED MEDICAL TREATMENTS** Zaps ailment only, reduces side effects
9. **HYBRID-FUEL VEHICLES** Lower gas use and emissions, higher performanc
10. **EDUTAINMENT** Educational games, computerized simulations for kids

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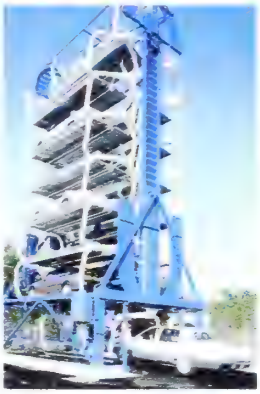
Up Front

PRODUCT PEEK

PARKING SPACES OUT OF THIN AIR

THE PARKING NIGHTMARE for urban motorists just might have a solution. Conscious of the challenge of tight city spaces, a Miami company has come up with a Ferris-wheel-like machine that stores cars. This removes the need for vast lots or multistory garages—which often can cost a million or more in a cramped downtown. The VertiPark, as the thing is called, costs about $10,000 per auto berth, so for a standard 32-car tower, that's a mere $320,000.



A VERTIPARK: *Just hope it doesn't break*

The tower, developed by Miami-based CompuTower Technologies, allows you to park at the ground level. Then, with the push of a button, the machine raises your car so there's an empty compartment for the next vehicle.

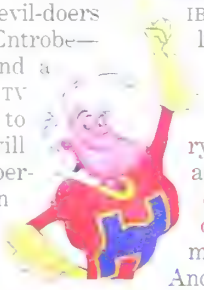
Vertical parking isn't anything new. The Big Three auto makers have used similar parking towers to store cars at their plants. But the National Parking Assn., the trade group for parking facilities, credits CompuTower with commercializing the concept. Thus far, the company has been able to swing big deals for the VertiPark only overseas, with a $10.5 million contract in Mexico and a $23.5 million joint venture in Taiwan.

In the U.S., smaller-scale operations can be found outside a Honolulu office building, a Las Vegas casino, and New York's venerable Yankee Stadium. When the tower was put into service last year, the idea was for ballpark employees to use it because of congestion in the lot. Alas, that's not a problem of late, although the Yankees say that they might take more towers if needed. *Oluwabunmi Shabi*

SHOWBIZ

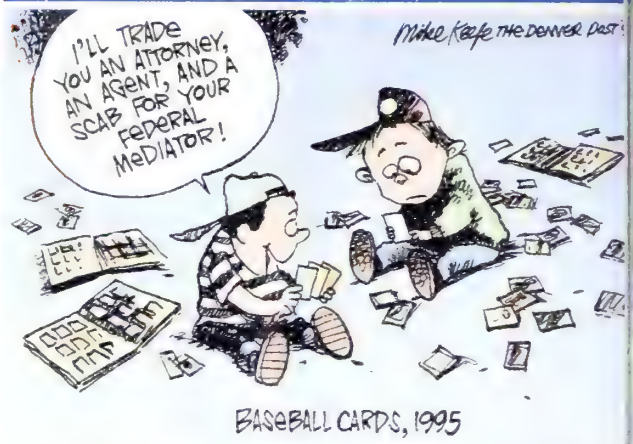
HYPERMAN CLOSES IN ON YOUR KIDS

IBM'S CARTOON SUPERHERO, like his corporate sponsor, is surging ahead. When we last left Hyperman in the fall, he was battling such evil-doers as Kid Chaos and Entrobe—and fighting to land a Saturday morning TV program. Well, way to go, H-man. CBS will begin airing a Hyperman cartoon show in September.



It will be a vast expansion of the audience for *The Adventures of Hyperman*, currently a CD-ROM program being developed by IBM and a Hollywood team to teach kids ages 8 to 11 about science in an entertaining way. "CBS fell in love with it right off the bat," says Cal Morrell, a manager with IBM's Multimedia Publishing Studio in Atlanta. Look for Hyperman to explore other topics, such as history and geography. IBM and its partners are even eyeing tie-in deals, such as Hyperman toys and T-shirts. And why not? Now that Big Blue has relaxed its starchy dress code and gone casual, the T-shirts could be a hot item among company employees. *Ira Sager*

DRAWN & QUARTERED



GREAT OUTDOORS

NO MORE SMOKEY THE NICE BEAR

SMOKEY THE BEAR ISN'T letting careless campers off with a stern warning anymore. The U.S. Forest Service is cracking down by sending very large bills to anyone who sets a national forest ablaze. With camping season coming up—and hordes of eager outdoor types planning trips now—the rangers want to avoid more of the fires that have devastated woodlands in recent years.

Rangers sent out nearly 200 invoices to individuals and companies responsible for fires in a four-state area of the West last year. They slapped the Durango & Silverton Narrow Gauge Railroad with a $450,000 tab to cover the cost of fighting a southern Colorado conflagration started by sparks flying from its vintage coal-burning steam locomotive.

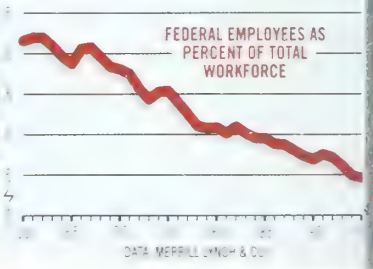
Then there's the man who tried to get rid of campsite toilet paper by burning it, causing a fire that laid waste to 15,000 acres in Idaho's Payette National Forest.

LATE, GREAT TREES: *R.I.P.*

received a bill for more than $3 million. The rangers later dropped the fine, however, since the fellow had little money. *Sandra Atchison*

THE BIG PICTURE

Shrinking the federal workforce is all the rage. Head count inched up until the 1990s, when the military, in particular, started shrinking. But in relation to overall employment, federal workers' share has been dropping for a long time.



FOOTNOTES Headhunters who say Republicans will improve the executive job market: 66%. Execs who agree with that: 15%

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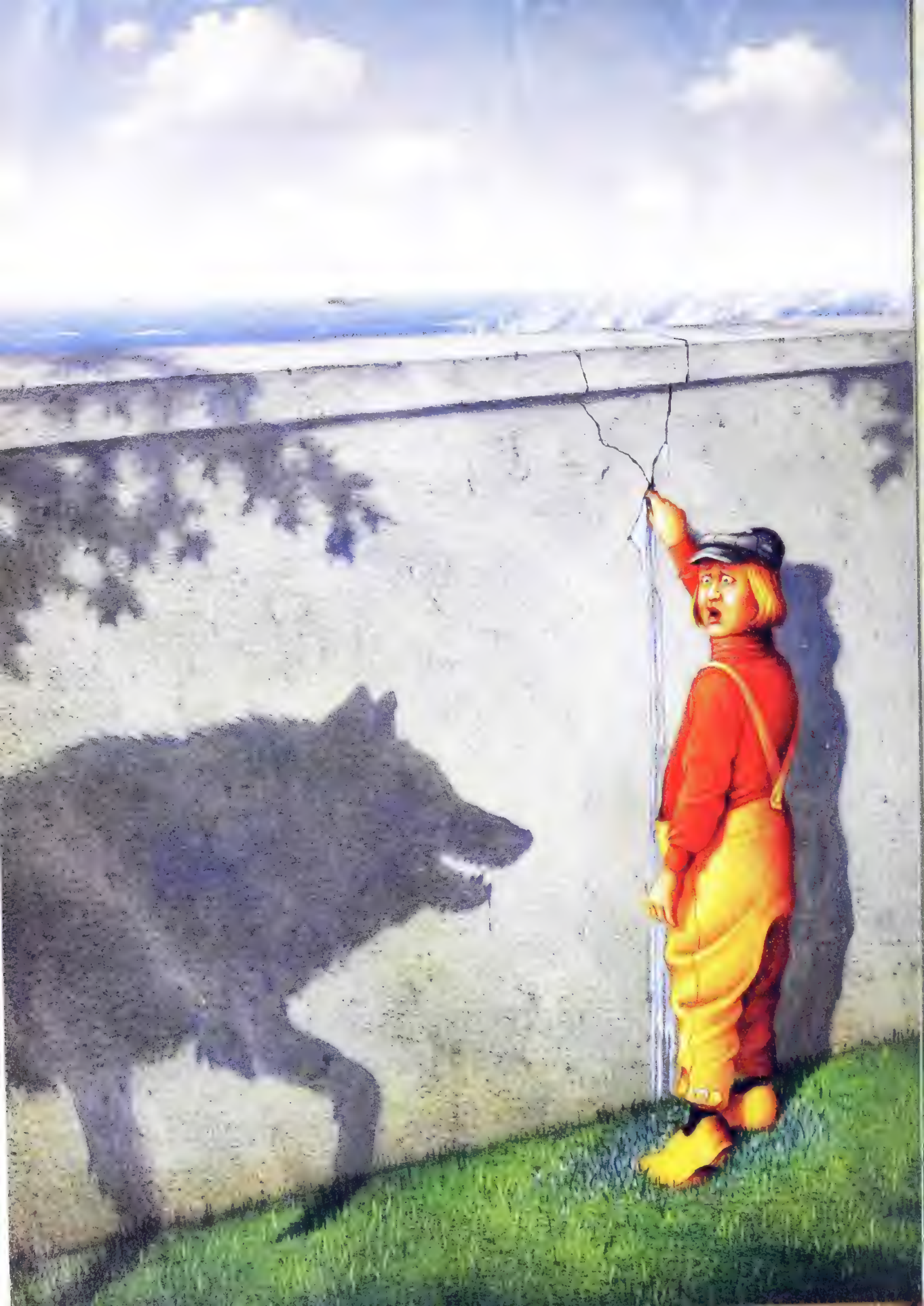

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Readers Report

ALBERT SHANKER: NOT OUT TO OUST KIRKLAND

Aaron Bernstein reports that some labor leaders are dissatisfied with Lane Kirkland and would like to see someone else as president of the AFL-CIO ("Why Lane Kirkland looks like a lame duck," News: Analysis & Commentary, Feb. 13). So what's new? As far back as I can remember—during the Meany and Kirkland years—there have always been such rumblings before election time. None of the critics ever gathered enough support to make a run.

The story is downright wrong in a number of respects. Bernstein couched my statement—that I support Kirkland 100% but will look at any other candidate—in such a way as to imply I am looking for change. Naturally, as a representative of 850,000 members, I owe it to them to look fairly at all candidates. But as I told Bernstein, any new candidate would lack credibility unless he had proposed alternative courses of action in recent years. Nobody has.

As for the charge that the AFL-CIO spends one-third of its budget on its four international affairs institutes, it actually spends less than 1% on them. The one-third figure was arrived at by including millions of dollars in the National Endowment for Democracy, USIA, USAID, and other government funds that the AFL-CIO uses to administer programs abroad. These are dollars the AFL-CIO would not have if it didn't do such work. In a period of fierce international competition and trade problems, every affiliated union of the AFL-CIO has benefited from the federation's and Kirkland's involvement in international affairs.

Albert Shanker
President, American Federation
of Teachers, AFL-CIO
Washington

MEXICO NEEDED AN OUNCE OF PREVENTION

"Lessons from the peso scare" (Editorials, Feb. 13) misses the point: Mexico's growing imbalance was allowed to continue for a very long time wi[illegible] comment by responsible interna[illegible] organizations.

What's necessary is not a syste[illegible] bailing out countries following co[illegible] from inappropriate economic polici[illegible] a system for timely identification [illegible] balances so that changes can be [illegible] and market forces can impose thei[illegible] discipline.

Howard G. Sch[illegible]
Schaefer Brothers[illegible]
Pasadena, [illegible]

TO SHAVE OR NOT TO SHAVE ISN'T EURO DISNEY'S DILEMMA

When are we going to learn it[illegible] always the unions or management[illegible] determine a company's success? It[illegible] customer, stupid ("Mickey goes to [illegible] school," Up Front, Feb. 13).

In Euro Disney's case, the u[illegible] "won" a court battle forcing the pa[illegible] relax its appearance code (no be[illegible] demure skirt lengths), but the u[illegible] seem to be losing the war. Attend[illegible] continues to fall, which translates [illegible] loss of jobs. It's the customer who[illegible] the standards.

S. W. Wilcze[illegible]
Baldwinsville, [illegible]

MORE B-SCHOOLS NOT TO OVERLOOK

There's an omission in your o[illegible] wise excellent coverage of grad[illegible] business education ("B-schools: [illegible] overlook these up-and-comers," Pe[illegible] al Business, Feb. 13). Northeastern [illegible] versity's Cooperative Education [illegible] takes an unusual approach to mar[illegible] ment training: After six months o[illegible] quired course work, co-op students [illegible] challenging six-month work assignm[illegible] at corporations such as IBM, Kraft [illegible] eral Foods, and Polaroid.

An optional international prog[illegible] allows students to take summer [illegible] tives in Britain, the Czech Repu[illegible] France, Hungary, Indonesia, or S[illegible] pore. The entire co-op MBA can be [illegible] pleted in 21 months, and many [illegible] employers recruit their student [illegible]

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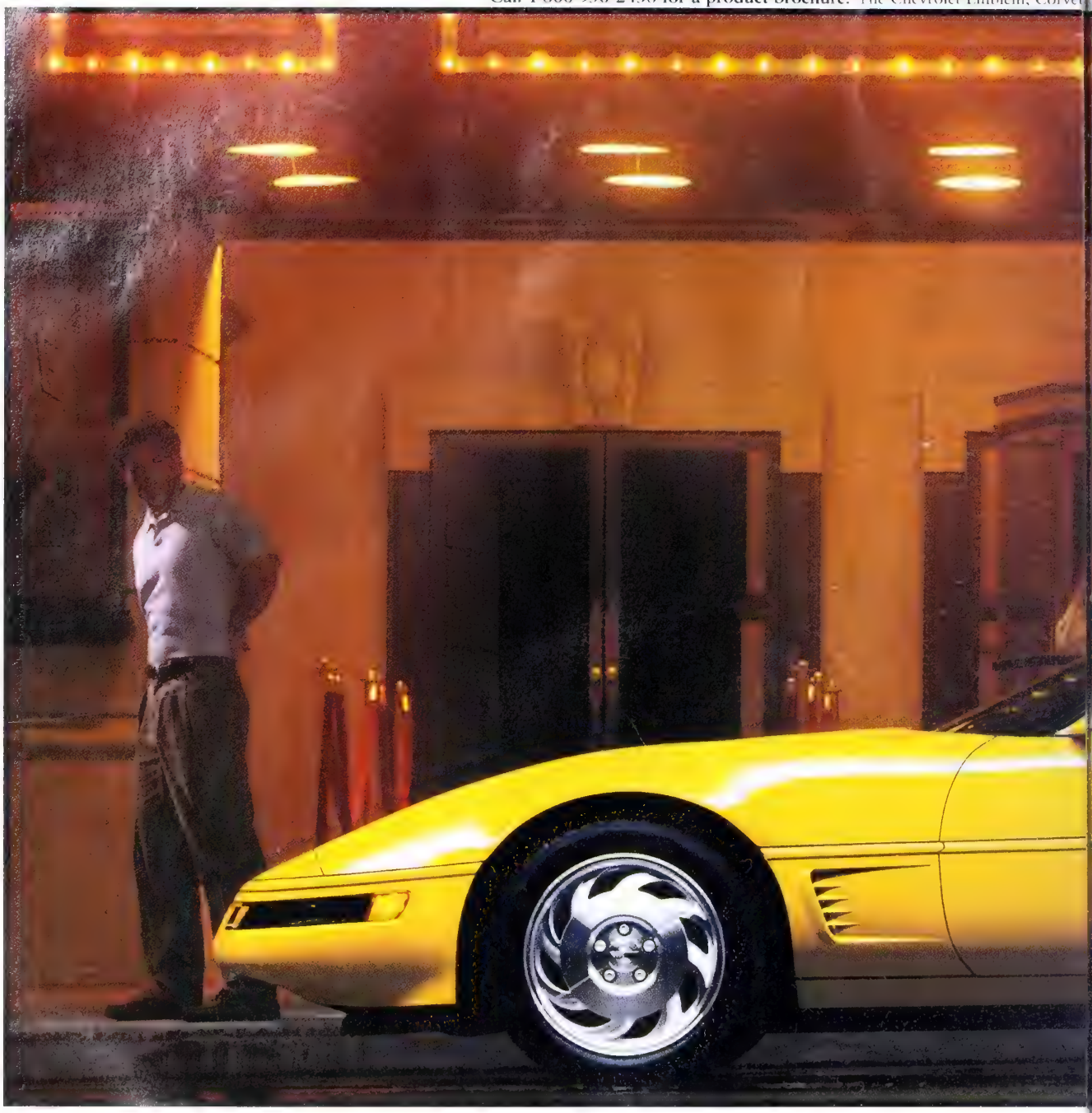

The average dream
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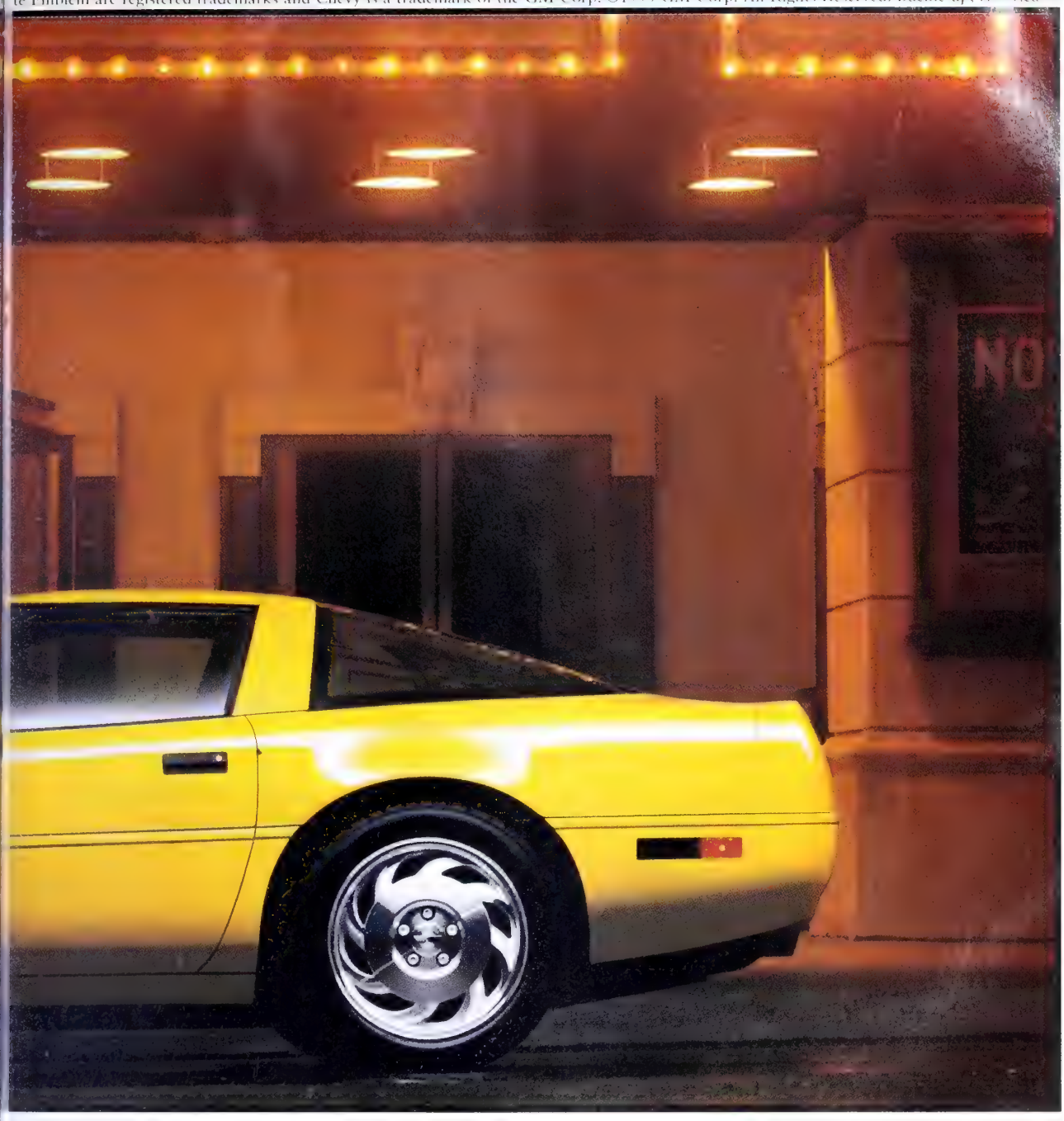

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Readers Report

CORRECTIONS & CLARIFICATION

"Senator Dangerfield?" (News: Analysi Commentary, Feb. 27) mistakenly s that Senator Larry Pressler (R-S. D.) raised $475,859 in campaign contribut from communications companies in the s ond half of 1994. That figure represents cash on hand in his reelection fund at y end. The amount he raised from all so es in that period was $151,713.

for regular positions after gradua

Daniel She
Brighton, M

You should have mentioned the d in the teaching of quality assurance. few schools offer even elective cours quality, let alone BS or MS degrees i field. Credit should be given to G Bowling Green State University f BS in quality and to Eastern Mic University for its MS in quality ma ment. But when will the "name schools do anything more than pay f lip service to teaching key tools for ity assurance to tomorrow's manag

James A. A
Auburn Hills,

NEW JERSEY AND STERN: PERFECT TOGETHER

No one should be upset about th ward Stern Rest Stop. ("How abou Jersey Sternpike?" In Business Week, Feb. 13). I can't imagine any more appropriate than naming a to go to the toilet after Howard S

William C. Ro
Arlingto

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THE DISCIPLINE OF MARKET LEADERS
Choose Your Customers, Narrow Your Focus, Dominate Your Market
By Michael Treacy and Fred Wiersema
Addison-Wesley • 208pp • $25

HOW NOT TO WRITE A BUSINESS 'HOW TO'

Business book writers often seem to crib from the same style sheet as authors of pop psychology books. Both usually take complex topics and oversimplify them, claiming that changes in one or two areas can turn a corporation into a world-beater or salvage an otherwise purposeless, neurotic life. Only rarely do such books acknowledge how complicated the world is and how hard change can be.

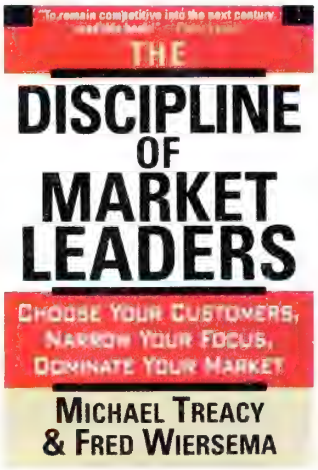
Reengineering the Corporation, the 1993 business blockbuster by Michael Hammer and James Champy, was popular at least in part because the authors appreciated the difficulty of the problems companies were trying to face and suggested equally taxing solutions. In contrast, the authors of *The Discipline of Market Leaders* have taken the easy way out. Michael Treacy and Fred Wiersema, consultants with CSC Index, the firm that helped spawn the reengineering craze, have penned a breezy book packed with generalizations and platitudes about what successful companies do well.

Essentially, the authors conclude, they do one thing: serve the customer. Surprising? Probably not. More interestingly, Treacy and Wiersema suggest that market leaders do this by excelling in one of three ways: They deliver either the best product, the best total cost, or the best "total solution"—but never all three. "Market leaders choose to excel in delivering extraordinary levels of one particular value," Treacy and Wiersema write. "So you choose your customers and narrow your value focus."

Provocative, as far as it goes. Despite years of declaring that the customer is king, too many U.S. companies seem to have only the barest notion of whom they're serving. And with downsizing and reengineering continuing unabated, overworked employees often have little time to serve customers, let alone grow "intimate" with them, as Treacy and Wiersema prescribe.

Problem is, the authors don't go far enough. Just how does a company identify its customers? How does it balance the competing demands of investors, employees, and other interest groups? What specific steps do successful companies take to win customers' hearts?

Treacy and Wiersema only sideswipe such questions. They map their thesis out cogently in Chapter Two—which readers might not get to after 13 pages of fluff—then proceed to make the same point over and over across the next seven chapters. Case studies add frustratingly little detail. We learn, for instance, that chipmaker Intel Corp. established very close links with end-users. But we don't find out how it did it, or what, specifically, those links achieved. The only statement we get from an Intel manager is that "the end-users give us a lot of input about the more global things that they want to have in the product." Like what?



The heart of the book explores the three disciplines the authors have determined market leaders practice. Some, such as Southwest Airlines, make "the promise of the lowest total cost"—which includes not just price but also "product reliability and durability." Another set, which includes Intel, delivers superior products. (Surely the way Intel reacted when it produced a flawed product, the Pentium chip, undermines the assertion that it has learned to listen carefully to end-users.) A final group focuses on "but one master: the customer." Such companies—soda upstart Cott Corp. is mentioned often—"offer a unique range superior services, from education hands-on help, so that customers c get the most out of their products."

Not only is there a lack of useful tail but it soon becomes clear that t one-value schematic, though intriguin is overly simplistic. Operationally exc lent companies, the authors write, "ject variety, because it burdens the bu ness with cost." But this certain doesn't apply to a key example, W Mart Stores Inc., with its endless ray of items. Nor does the one-valu only model do justice to Southwe Airlines, which, despite its low-cost m to, treats its customers as intimate and personally as any company. Oth companies, such as Motorola Inc., see to both make the best product and liver the lowest total cost.

Discipline also suffers from a lack diversity. The same companies are d cussed again and again—presumab they are or were clients—while ob ous candidates for discu sion are barely me tioned. Certainly, chapter on compani that design and produ superior products shou contain more than pas ing references to 3M a Motorola, two titans product developme Overseas companies a not discussed in a great detail—a glari omission, especially wh talking about the auto i dustry. For all the su cess of the Ford Taur clearly the Japanese st produce better cars more quickly th their U. S. counterparts.

The Discipline of Market Leaders i n't an awful book. It's a pleasant rea The second chapter offers extreme useful ways to look at a business. A the concluding three chapters, whi outline how to decide which discipline follow, are also helpful. But reading t entire book leaves one with the feeli that the authors are trolling for client saving their best insights for those w will pay for more—much more—than hardcover book.

BY KEVIN KEL

Kelly covers manufacturing and tec nology from Chicago.

START WITH A GOOD IDEA, OVERSIMPLIFY IT, HEAP ON FLUFF, AND KEEP REPEATING YOURSELF

STEPHEN H. WILDSTROM

IGHTS, CAMERA, 'C SHORTCUTS

ven if you're not the office techno-nerd, you've probably fig-ed out clever ways of do- things on your PC that d like to share with col-gues. But it's a pain to ite out a description—en if you don't forget a y step. Demonstrations are re effective, but they're en too time-consuming. For the past year, Lo- Development Corp. s quietly offered a eap, simple solution to s problem. Lotus reenCam lets you record series of screen actions th voice-over narration. ayback software, which y be duplicated and stributed without arge, allows the reenCam "movie" to viewed on any Win-ws PC. The result is ich like the computer mos you see in stores the on-screen tutori- for new software. "If e person figures out w to do something, he able to just E-mail it ound," says Joel Tepp, a e-president of Kemper Se-rities in Seattle. Tepp used reenCam to help Kemper's tual-fund division move m a minicomputer-based stem to Windows.

LENT MOVIES. Training is e natural business market ScreenCam. But the orig-al version had one big awback: The overwhelming ajority of office PCs lack und capability, so they had way to play back the nar-tion. ScreenCam 2.0, sched-ed for release in March at out $70, solves the prob-m by allowing on-screen captions to substitute for narration. Leaving out the sound has another advantage: Sound files get very big very fast, even though compression technology in the new version has cut the size of recordings in half—to 500 kilobytes per minute. By contrast, a two-minute silent movie I made weighed in at 119 kilobytes—small enough to be distributed on floppy disk or E-mail, even over dial-up connections.

Producing a silent cybermovie is a straightforward affair, but it takes planning. I start by running through the planned actions several times to make sure I understand exactly what's happening at each point and to think about the text I'll want to add. Then I design captions. You can create your own backgrounds for the captions, perhaps incorporating a company logo, or you can use a Lotus selection.

Now comes the trickiest part: recording the movie. You go through the screen actions you want to demonstrate and use function keys to display and clear the captions in sequence. I often need several "takes" to get just what I want. But it's no real challenge to plan and record a two- or three-minute demonstration in less than an hour's work.

CAPTION SNAFUS. Computer training isn't the only use for ScreenCam. Demos of new software for potential users can also be created with the program. Kemper's Tepp looks forward to using ScreenCam to supply information on investment products to brokers or customers. "The captions allow us to handle the needed disclaimers," he says.

The program could still use some improvement. While you can add a new soundtrack to an already recorded movie, you can't edit the sound. Similarly, there's no way to insert a caption into a movie once it's made without rerecording the entire session. A way to rearrange captions would also help. Now, if you write two captions in reverse order, you have to delete one, then recreate it to fix the problem.

For reasons known only to Lotus, the company kept the original version something of a secret, distributing it mainly as part of its SmartSuite office package and loaded on IBM ThinkPads. Product manager Steve Barlow says the new version will be widely available at software retailers. It's well worth a look.

Note: America Online subscribers can download a ScreenCam player and sample movies from the "Search BW" area of BUSINESS WEEK Online.

BULLETIN BOARD

WINDOWS 95 WATCH

A CHRISTMAS IOU

Many American families may get a Windows 95 voucher for Christmas this year. Even if Microsoft makes its August target for shipping the new operating system, the release will come too late for the long lead times needed to load the software onto machines destined for Christmas retail

sales. Mal D. Ransom, marketing vice-president for Packard Bell Electronics, says his company will probably ship machines this fall with Windows 3.11 installed—and include a coupon for a Windows 95 upgrade in the box. Companies selling by mail-order use shorter pipelines and have a better chance of getting the new software loaded by fall.

TESTING, TESTING . . .

Microsoft, meanwhile, has launched a major push to make sure that August doesn't become the latest in a string of missed deadlines for Windows 95. They now will add no new features, and developers are concentrating on cleaning up the remaining software and hardware compatibility problems. A new version, known as "Beta 3," is scheduled to be shipped to 30,000 testers in late February. About four weeks later, Microsoft will offer 400,000 "preview" copies to users worldwide for $32, an amount the company says will just cover its direct costs.

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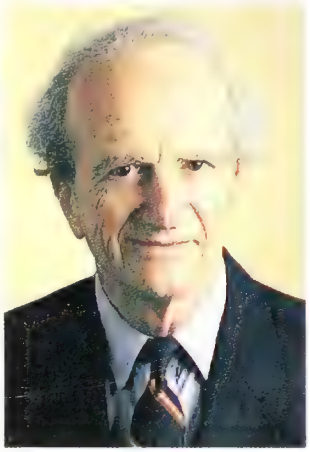
BY GARY S. BECKER

IT'S SIMPLE: HIKE THE MINIMUM WAGE AND YOU PUT PEOPLE OUT OF WORK



SEE YA, PAL: The most persuasive research shows that it doesn't take much of a raise to price low-skilled workers out of their jobs

Higher labor costs reduce employment. That is why President Clinton's proposal to raise the federal minimum wage should be rejected. A higher minimum will further reduce the employment opportunities of workers with few skills.

Teenagers, high school dropouts, immigrants, and other low-skilled workers frequently earn less than $5.15 per hour, the proposed new minimum. They find employment in small establishments, especially in fast-food chains and other retail sectors. Increasing the minimum, as the President wants, would put some of them out of work since their productivity is not high enough to justify the cost to employers.

During the past several decades, many studies found that raising the minimum wage does reduce the employment of teenagers and others with low skills. But minimum-wage laws have remained popular among trade unionists and many politicians. And periodically, some economists have contested the prevailing wisdom about harmful effects.

SERIOUS FLAWS. A recent and widely cited challenge of this kind has come from several studies by two Princeton University economists, David Card and Alan B. Krueger—the latter now Robert B. Reich's chief economist at the Labor Dept. One study finds that the change in employment after a minimum-wage hike is generally not bigger in states with a larger fraction of low-wage workers—the group that should be most affected by higher minimums.

Another study is frequently mentioned by Reich and others in the Administration to bolster the argument that a higher minimum does not lower employment. That study compares employment changes in fast-food restaurants in New Jersey and Pennsylvania after New Jersey raised its own minimum in 1992. Card and Krueger argue that because employment fell in Pennsylvania as much as it did in New Jersey, the drop in both states must have been due to other causes than the raise in the minimum.

There are some, and I am one of them, who believe that these studies have serious defects. Several of these were spelled out by Donald R. Deere and Finis R. Welch of Texas A&M University and Kevin M. Murphy of the University of Chicago in research they reported at the January meetings of the American Economic Assn.

For example, the higher federal mini in 1990 and 1991 caused a much larger in New Jersey's teenage employment Pennsylvania's, which could explain employment did not fall more in New Je when that state increased its own mini in 1992. New Jersey employers presum anticipated the increase in their st minimum when they sharply cut em ment in responding to the earlier hike.

DUELING STUDIES. The Card-Krueger st are flawed and cannot justify going ag the accumulated evidence from the many and present studies that find sizable tive effects of higher minimums on em ment. The Deere, Murphy, and Welch s shows that the two-stepped increase in federal minimum from $3.35 to $4.25 in and 1991 reduced employment of teena high school dropouts, and other groups low earnings.

The magnitude of these reductions sc about right, particularly after the au take into account the economic recessi that time. After the 27% increase in the imum wage, employment of male and fe teenagers lowered by 12% and 18%, re tively, while employment of high school outs shrank by about 6%. If Congress the rate by 18%, to $5.15 an hour, the sults imply that employment of workers few skills will fall by over 5%.

President Clinton justified the need higher rate of pay by noting that a f cannot live decently on minimum wage ings. However, even Card and Krueg not find that raising the minimum is an tive way to reduce poverty, since poor lies typically get only a small fraction of income from members whose wages are the minimum.

The President also wants to increase rent subsidization of the job training o skilled workers, but these subsidies mig unnecessary if Clinton did not also adv raising federal minimum wages. Higher imums discourage on-the-job training of ers with few skills since they spend time learning rather than producing.

Even a wizard would have a great d difficulty repealing the economic law higher minimum wages reduce employ Since politicians are not wizards, they s not try.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution

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INSURANCE & INVESTMENT

BY GENE KORETZ

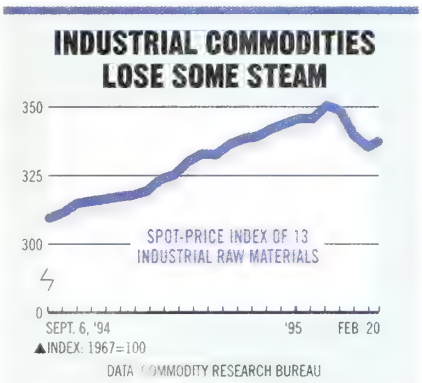
INFLATION FEARS: ON, OFF, ON...

Making sense of materials prices

Inflation watchers over the past year have been waiting nervously for the other shoe to drop. While industrial commodity prices, a key leading indicator of both economic growth and inflation, had been climbing sharply since late 1993, both the U. S. consumer price index and the producer price index have remained remarkably restrained.

With both the job market and capacity utilization relatively tight at the close of 1994, it seemed only a matter of time before price pressures filtered down to consumers. Instead, the latest development on the inflation front has actually been a drop in pressure at the other end of the pipeline—in industrial materials prices. The Commodity Research Bureau's widely watched spot price index of 13 industrial raw materials, for example, has just posted its biggest decline since mid-1993 (chart).

Some economists have hailed the drop



as confirmation that the U. S. economy is downshifting. "High interest rates and a slowing in demand for big-ticket items is cutting into inventory accumulation," says Joseph Carson of Dean Witter Reynolds Inc. He notes that several auto companies and lumber producers have announced cutbacks in planned production. "With today's tight inventory management," he says, "any slowdown in demand growth can feed back quickly to input prices."

Edward E. Yardeni of Deutsche Bank Securities Corp. thinks the dip in materials prices suggests that the global economy itself may be decelerating a bit. The Mexican crisis has already dampened growth in Latin America, he says, and it is also slowing financial flows to emerging nations in Asia. Since these nations have large appetites for U. S. and European exports (as well as for raw materials), there may be feedback effects on the industrial economies.

Commodity prices are notoriously volatile, of course, so their recent softness may prove shortlived. But for now, their behavior is bolstering the odds favoring a deceleration in U. S. and other economies—and a concurrent relaxation of inflationary pressures.

A POOR YEAR FOR U.S. HOUSEHOLDS

Their net worth trends down

Although 1994 was a banner year for U. S. corporate profits, U. S. household wealth seems to have actually fallen. Economists at Salomon Brothers Inc. estimate that real household net worth declined by about 0.5%—only the eighth drop in 30 years.

With the Federal Reserve pushing up interest rates, the biggest hit was a 1.7% decline in real financial assets, mainly fixed-income securities in the U. S., Europe, and emerging markets. Even less volatile tangible assets, which are dominated by housing, managed to eke out an inflation-adjusted gain of only 1%. Despite a strong housing market, the median price of new homes barely kept pace with consumer inflation last year, while the real prices of existing houses slipped a bit.

Although the wealth blow was relatively modest, it helps explain the continuing economic malaise expressed by many American households.

THE PAYOFF FROM MORE COPS

A study says they're worth the cost

Americans undoubtedly sleep more soundly with more cops on the beat, but academics have turned up surprisingly little evidence that police reduce crime. The crux of the problem is that rising crime rates spark police hiring, so the two variables are often positively related even if police reduce crime. Similarly, large police forces are typically found in cities with high crime rates.

In a National Bureau of Economic Research study, economist Steven D. Levitt has come up with a way to circumvent this problem. His study ind cates that increases in police forces large cities are concentrated in mayo and gubernatorial election years. Th changes in crime rates during su years (after controlling for other inf ences) provide an independent measu of the impact of police on crime.

Levitt's analysis of data from 59 citi from 1970 to 1992 indicates that addi a police officer eliminates about 8 to serious crimes in a year (mostly au thefts). Based on past estimates of cri costs, Levitt calculates that this tra lates into at least $100,000 in social be efits per cop—suggesting that hiri more police remains cost-effective.

CHINA'S REVERSE BRAIN DRAIN

It's luring U.S. grads back home

In the long run, Sino-American re tions may well rest on the influence an elite group of Chinese—those w have studied in U. S. colleges and u versities. Since 1989, students fr mainland China—usually pursuing gra uate degrees in science and engine ing—have been the largest foreign c tingent enrolled in American college

Most Chinese graduates of Americ colleges have been reluctant to go ho after experiencing U. S. freedom a economic opportunity. But lately, C nese officials from the entrepreneur provinces have started wooing them w well-paying jobs and promises of fre dom to travel to and from China.

Chong-Pin Lin of the American Enterprise Institute says Taiwan followed a similar pattern. Once bent upon staying in the U. S., Taiwanese students began returning home in increasing numbers some years ago, helping to transform the economy and promote democracy. Today, President L Teng-hui and 12 members of his ca net hold PhDs from U. S. universitie

If Chinese graduates of U. S. scho follow in the footsteps of their Taiv nese cousins, says Lin, "their effect China's future political and economic d velopment could be profound."

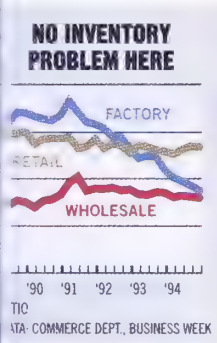
AMES C. COOPER & KATHLEEN MADIGAN

OME SIGNS OF A SLOWDOWN URN OUT TO BE A MIRAGE

U.S. ECONOMY

Now you see it, now you don't. Thanks to the magic of ernment revisions, which can change the meaning of nomic data with a computer keystroke, a budding in- tory problem apparently has vanished. In its place ds a much better balance between production and and that brightens the first-half outlook.

Then the Commerce Dept. issues its update on th-quarter gross domestic product on Mar. 1, the position of GDP is likely to garner more attention the revision in the headline number on economic wth. When the government reported its first esti- e showing growth of 4.5%, at an annual rate, much ne December data were still unknown. With those bers now in hand, it appears that Commerce far estimated inventory growth at yearend, while the e deficit actually narrowed instead of widening.



Presto! A slimmer trade deficit, mainly reflecting more zing in exports, means much stronger growth in final demand than the 3.7% pace first reported. And fewer goods on hand indicate a much less alarming rise in stock levels than the original increase of $68 billion (charts). So much for the notion that overproduction was a problem.

: NEW NUMBERS suggest that the economy may be slowing down in early 1995 as much as the eral Reserve would like. With inventories at man- able levels, businesses will continue placing orders, manufacturers will keep cranking out goods and ng to their payrolls. That means, despite the recent wdown signals from housing and retail sales, Alan enspan & Co. may have more rate hikes on tap for spring.

ed Chairman Greenspan sounded as hawkish as during his semiannual congressional testimony on netary policy on Feb. 22. "The jury remains out on ther the slowing that is in train will be sufficient to tain inflation," he said.

he Fed's latest forecast sees consumer inflation in 5 picking up slightly into the 3%-to-3.5% range, while wth slows to between 2% and 3%. That unusually e range suggests that the Fed is still unsure about well past moves to cool the economy will work.

ne particular area of uncertainty that Greenspan noted was inventories. The Fed chief expects businesses to build their stocks more slowly this year than last, but the degree of the resulting drag on economic growth "remains to be seen."

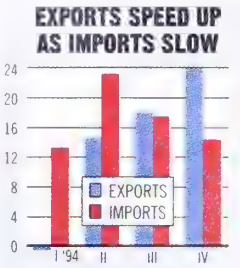
That's because the monthly data show no sign of an inventory problem at factories, wholesalers, or retailers. Stockpiles in manufacturing and trade rose a slim 0.2% in December. For its first GDP calculation, Commerce had assumed that inventories for the month increased more than twice that much, and it overestimated November stock levels as well.

THE MOST CONVINCING sign of the lack of excessive inventories is the recent pattern of business sales. They jumped a sturdy 1.3% in December, pushing the ratio of inventories to sales down to 1.38, the lowest reading in the data's 27-year history.

To be sure, inventories grew rapidly last year. In fact, it was the fastest pace in a decade. But since March, 1994, when stockpiles began to zoom, the 5.8% growth in stocks has been overwhelmed by a 6.6% advance in sales. That hardly suggests overblown inventory growth.

Stock levels at factories remain exceptionally lean relative to demand. The ratio of inventories to sales fell to a record low in December. In addition, factory orders rose nearly twice as fast in the fourth quarter as they did in the third, and the backlog of unfilled orders is rising. All this suggests little need for manufacturers to throttle back their production lines.

The inventory-sales ratios for wholesalers and retailers look underwhelming as well. The only hint of overstocked shelves shows up in nonauto retailing. In the fourth quarter, the ratio in this sector increased to the highest level since 1986, suggesting that many retailers were left with a lot of unsold holiday items that needed to be heavily discounted in January and February.



▲QUARTERLY PERCENT CHANGE, ANNUAL RATE
DATA: COMMERCE DEPT., BUSINESS WEEK

But a lot of those goods came from overseas. Greenspan told Congress that perhaps a quarter of all wholesale and retail inventories are imported. So working off any excess, he said, now has a more muted effect on U.S. production than it has in the past.

But it's not just a more sanguine view of inventories that gives the outlook a lift. Foreign demand is growing faster at the same time that imports are coming ashore

at a slower clip. The result is improving prospects for the trade deficit in 1995, which will add support to overall demand.

Commerce was undoubtedly surprised at the sudden shrinkage in the trade gap in December, as were most economists. The deficit in goods and services dropped from $10 billion in November to $7.3 billion, the lowest in a year. Of course, the monthly numbers are erratic, but the December data suggest that the deterioration in the deficit has run its course.

Exports surged broadly in December, rising by 3.2%, while imports fell by 1%, the first decline in seven months. Goods accounted for nearly all of December's trade improvement, but for the year, the merchandise deficit hit a record $166 billion.

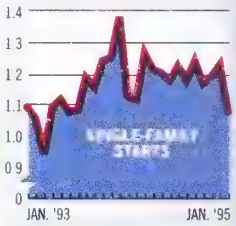
THE DEFICIT in real net exports, the trade measure in Commerce's GDP accounting, now looks to have hit bottom in the third quarter of last year, instead of widening further in the fourth. Indeed, the poor trade performance last quarter appeared to have subtracted half a percentage point from growth. The revisions will show that did not happen.

For 1995, exports will keep the trade improvement going. True, the crash in the Mexican peso and the weakness in the Canadian dollar will limit U.S. exports to those two key trading partners this year. However, demand in Europe and Asia should pick up. That's even true for Japan, as the U.S. benefits from Japanese rebuilding after the Kobe earthquake.

Stronger foreign demand will offset some of the slowdown already in progress in domestic demand. This cooling off is most notable in housing. Starts slumped 9.8% in January, with the key single-family sector down 12.3% (chart). The drop is even more impressive considering that starts were down in all regions and that the weather in the East and the South in both December and January was unusually mild.

Clearly, Fed tightening is squeezing homebuilding. That fact is corroborated by other demand measures, including sales of new homes, mortgage applications, and builders' surveys. Residential construction will probably subtract from first-quarter GDP growth, as it did in the third and fourth quarters.

HOMEBUILDING FEELS THE FED'S BITE



▲ MILLIONS, ANNUAL RATE
DATA: COMMERCE DEPT

But if fourth-quarter GDP sports the new look that the monthly numbers suggest, then this economy is still carrying the fundamentals for growth greater than the 2.5% pace the Fed would like to see. If so, there will be nothing magical about the Fed's response. It will simply reach into its hat and pull out another rate hike.

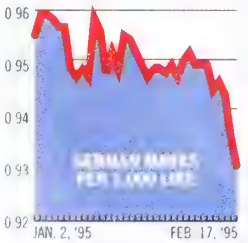
EUROPE

WILL ROME'S RED INK DRAIN ITALY?

Italy's current-account surplus, modest inflation, and low wage increases should be the ingredients for a rising currency. Instead, the lira has been plummeting, hitting a postwar low against the German mark in mid-February (chart).

The catalyst in the lira's drop is Italy's fiscal fiasco. New Prime Minister Lamberto Dini took office intending to reform Italy's bloated pension system and to offer an interim "minibudget" that would trim 20 trillion lire ($12.5 billion) from Rome's deficit. But the budget was dead on arrival in Parliament, as opposition mounted to hints of higher energy and value-added taxes. Now, Italy faces a 1995 deficit of some 160 trillion lire, 10% of its gross domestic product.

THE LIRA HITS A POSTWAR LOW



DATA: COMMERZBANK, DRI/McGRAW-HILL

To prop up the lira, the Bank of Italy lifted interest rates by three-quarters of a point on Feb. 20, but a deficit deal still will have to be forged. The timing is crucial because in March, Rome must issue new and refinanced debt totaling 119 trillion lire. More important, Italy's lira and deficit problems could feed on each other. A worsening deficit means a weaker lira, which lifts import prices and inflation. Already, early reports on urban consumer prices showed a 0.8% rise in February, twice the January increase.

In turn, the Bank of Italy may have to lift rates again. And since interest payments on the public debt account for all of the government's deficit, rising rates will widen the fiscal gap.

So far, the chief beneficiary of the shrinking lira has been exports. An 11.9% jump in exports over the year ended in the third quarter led the 3.7% gain in Italy's real GDP. And the export momentum continued at yearend. Industrial orders in November were up 25.3% from a year ago, while output was up 6.1% in the year ended in December.

Domestic demand, up only 1.8% in the third quarter, is struggling, however, because of high unemployment and stagnant real wages. Now, higher interest rates and more taxes suggest that Italy's recovery may lose some pep in 1995, even as its Continental neighbors pick up steam.

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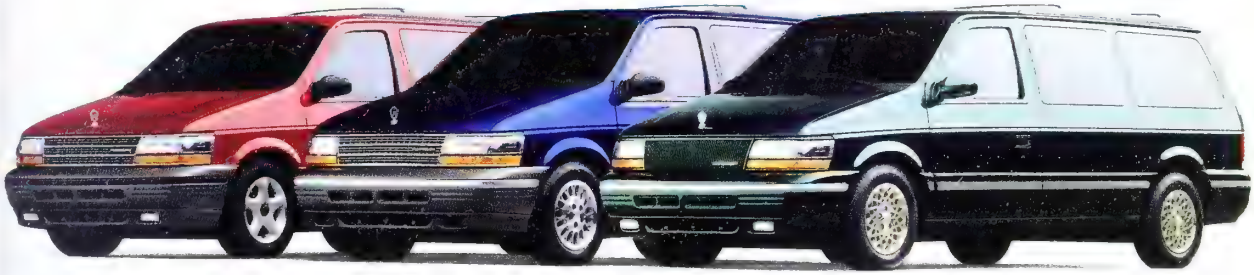

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BIG MAC ATTACK: ANTI-U.S. FEELING IS GROWING

THE MEXICAN CRISIS

TOUGH LOVE IN MEXICO

It wakes up to the harsh realities of the U.S. bailout

For Treasury Secretary Robert E. Rubin, it was like being back on Wall Street. As co-chairman of Goldman, Sachs & Co., Rubin gained a world of experience structuring complex financings for foreign governments—which often balked at the stiff terms of overseas investors.

So when Mexican officials resisted Rubin's demand that they meet harsh economic targets as the price for $20 billion in Treasury loans and guarantees to stabilize their free-falling currency, Rubin played Wall Street hardball—holding up the package for weeks until the Mexicans on Feb. 21 grudgingly signed the deal on his terms. "The conditions are difficult, but there is no other way out," a senior Mexican Finance official said afterwards.

But politics still is Rubin's weak suit—and some experts are questioning whether he drove too hard a bargain. The plan provides Mexico with the long-term financing it desperately needs to bury most of its $21.5 billion in outstanding *tesobonos*—short-term bonds sold mainly to foreign investors—that were at the root of its liquidity crisis. But Rubin's tough terms, which effectively let the U.S. dictate Mexican economic policy, virtually assure that Mexico must endure a deep recession and raise the fear of political instability.

Many economists believe Washington had no choice but to impose stringent

IS WASHINGTON SQUEEZING TOO HARD?

On Feb. 21, the day U.S. Treasury Secretary Robert Rubin and Mexican Finance Minister Guillermo Ortiz agreed to a bailout plan, traders knocked 5% off Mexico's stock market. They feared the plan initially would slash profits and provoke a political backlash.

LOAN DEFAULTS Higher interest rates should in time stabilize the peso. But with rates topping 50%, industry could choke, turning n into something close to depression. Loan defaults, already 10% of rtfolios, are sure to rise and could cause some banks to fail.

IONS FOR PRESIDENT ZEDILLO The plan's tight curbs on the money ould leave the government short of funds to revive the economy or e emergency social welfare programs.

NTI-AMERICANISM Channeling oil export revenues through the U.S. Reserve could spark a nationalist backlash, undermining President grip on the country's increasingly turbulent political climate.

TO ECONOMIC REFORM Privatization of state-owned companies and ncessions aimed at raising up to $14 billion in the next three years derailed by political opposition and bureaucratic delays.

ns on a government that is widely ved as fiscally profligate—and un- ing to own up to its mistakes. After uel Mancera, governor of Mexico's ral bank, penned a defense of his ernment's monetary management in *Wall Street Journal* on Jan. 31, asury Under Secretary Lawrence H. mers erupted in a private session Mexican officials, even threaten- to curtail the plan.

KLASH. Given Mexico's spiraling eco- ic problems, though, there's no guar- e the plan will work. "The Mexican nomy hasn't hit bottom yet," says n Brand, global strategist for Nat- st Securities Corp. "And it won't be y for them to come out of the reces- ." Indeed, in their haste to dump kican stocks on Feb. 21 over fears the plan would decimate corporate fits, traders put more downward ssure on the peso. That day, the *bol-* was down 4.92% and the peso was off %, to 5.67 to the dollar. On Feb. 22, xico's 28-day interbank rate roared 4.125%, from 49% just hours earlier. his is the new reality for Mexico. t weeks after Mexican newspaper dlines proclaimed "*Viva* Clinton" fol- ing the U.S. loan pledge—the center-piece of a $53 billion international rescue effort—most Mexicans are waking up to the sobering details of the plan: Deep cuts in government spending, credit growth, money supply, and foreign imports, all promise hardship. While Mexican officials are still projecting growth of 1.5% this year, many private economists believe the economy is more likely to shrink by as much as 3%.

Prospects of a sharp downturn, coming on the heels of a devaluation of the peso that slashed most Mexican workers' earnings by 40%, could spark a backlash against President Ernesto Zedillo Ponce de Léon from voters who feel he's giving the U.S. government too much control over their country. In the wake of the ruling Institutional Revolutionary Party's larger-than-expected defeat in a recent gubernatorial election in Jalisco, Mexico's third-largest state, political experts believe the party could now lose upcoming gubernatorial races in Yucatán, Baja California, and Guanajuato. "The U.S. has taken the steps to save Mexico economically, but we could end up sinking Zedillo politically," says Delal Baer, a senior fellow at Washington's Center for Strategic & International Studies.

> Deep cuts in the money supply and government spending guarantee hardship

For their part, Clinton Administration officials argue that the strings tied to the loans—half of which will be made available by July—are necessary to ensure that taxpayer funds will not be put at undue risk. Rubin even retained a Mexico City law firm to ensure that Mexican officials couldn't exercise legal loopholes to escape the plan's tough terms. The Administration also wanted to make sure the plan doesn't stir opposition among skeptical members of Congress, who refused to approve an earlier $40 billion loan guarantee plan.

"CARPETBAGGERS." But in Mexico, economists believe that the Administration has demanded too much already to appease Congress. For example, Mexico agreed to try to keep money growth below the rate of inflation—and curb domestic credit demand—by pushing up short-term rates. The central bank acted Feb. 20, lifting its key rate to 50% from 40%. But the resulting turmoil will produce an 8% decline in business investment and a sharp rise in unemployment, to nearly 13% by 1997 from 9.6% last year, estimates WEFA Group, Bala Cynwyd, Pa. "The economy just can't manage these rates for the rest of the year without causing bankruptcies and defaults on corporate bonds," says Mexican economist Rogelio Ramirez de la O.

Other problems sure to irk Mexican nationalists are brewing. John E. Silvia, an economist at Kemper Financial Services Inc. in Chicago, predicts that Mexican companies will lose domestic market share to capital-rich foreign rivals—who may even try to take over the local businesses. "The risk is that you'll have all these carpetbaggers trying to gobble up Mexican companies for a song," Silvia says. That spells opportunity for Americans, perhaps—but it's more fodder for Mexican economic nationalists.

If that weren't enough of a headache, Zedillo is likely to encounter fierce public resistance to a U.S. requirement that the government raise $14 billion through the sale of state-owned assets over the next three years. The expected sale of some state-owned power plants, for one, will pit Zedillo against the powerful electrical workers union.

Anti-U.S. sentiment is also sure to grow over tough requirements that the buyers of Pemex oil, natural gas, and petrochemicals deposit their payments in the Federal Reserve Bank of New York rather than to the oil company. U.S. bargainers were so intent on obtaining this provision—which serves as collateral for U.S. loans—that they insisted on Pemex signing the loan agreement as a formal party to the deal. Rubin's objective was to make the payments automatic and to prevent Mexico from wiggling out of the deal on a technicality, such as by privatizing its oil giant. "It was vital that Pemex sign to make the condition as airtight as possible," says one U.S. official.

Still, the tough terms that Rubin extracted from Mexico serve as a warning for leaders of developing natio around the world. Washington has se a clear signal that it won't coddle tro bled developing nations if they run in economic difficulties. Now, all that r mains to be seen is if Robert Rubi form of tough love actually works.

By Dean Foust, with Paul Magn son in Washington, and Geri Smith Mexico City

THE MEXICAN CRISIS

SEEKING SALVATION THROUGH EXPORTS

But the cheap peso alone won't be enough to fuel a boom

Three months ago, when Mexico's future seemed bright, then Finance Minister Jaime Serra Puche shrugged off the country's $18.5 billion trade deficit in a speech to legislators. A major cause of the deficit, he argued, was a surge of capital-equipment imports by Mexican companies modernizing to compete in world markets. Weeks later, the deficit devastated the peso, the country slid into crisis, and Serra Puche was out of a job.

BACK TO WORK: *Maquiladoras rely on imported supplies*

Now, Mexican officials have high hopes that the cheaper peso will trigger a boom in exports—and help jump-start their nation's stalled economy. Last year, Mexico's exports totaled $61 billion (chart), and officials project a 22% leap this year. Combined with a drop in imports, that would slash the national trade deficit to $5 billion this year. Even less upbeat private economists figure import shrinkage will help pare the trade deficit.

DIMMED PROSPECTS. Rosy predictions, to be sure—too rosy, perhaps. Despite Serra Puche's claim, capital equipment in fact accounted for only 17% of the 1994 import splurge. And few Mexican companies have the knowhow, from quality controls to efficient billing, to compete internationally. This year, the government's cash-strapped export-development bank will cut its discounted export loans to $11 billion, down 26.7% from last year. For Mexico's mostly small and underfinanced companies, that dims the prospects for breaking into export markets. "Organizing sales, distribution, brokers, wholesalers—it takes a lot of time and money," says Héctor Hernández Pons, vice-president at Herdez, a food canner.

That's one reason Mexican exports are concentrated in a handful of sectors such as oil, autos, and chemicals. It's also the reason so many export products are produced in *maquiladoras*, the 2,000-odd plants along Mexico's northern border. Most other Mexican companies are so small they can't benefit from the North American Free Trade Agreement. "Ninety percent of the labor force and 90% of companies are outside NAFTA," says Roberto Batres, director of consultants Arthur D. Little Mexicana.

Another factor limiting Mexico's potential as an export machine: Its companies are heav dependent on foreign components. Tha largely because few homegrown supp ers can match foreign rivals' quality a productivity. As a result, Mexican au assemblers, to cite one example, b components from the U.S. and Cana under long-term contracts. A shift the peso's exchange rate won't chan that pattern, says a Ford Motor C official.

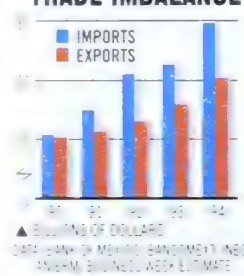
SCREWUPS. The lack of good local su pliers explains why the bulk of Mexic imports—nearly half of 1994's $79 billi total—are intermediate goods. "We we importing the stupidest things, li screws," says Manuel García Quintan export director of Organización Mab an appliance maker that exported $2 million worth of gas stoves last year a joint venture with General Elect Co. Recently, Mabe invited 140 potent local suppliers to show their wares, a García is optimistic that many will n try to meet Mabe's standards.

The *maquiladoras*, however, are lik ly to remain heavily dependent on f eign parts. The border plants, whi import components, mostly from t U.S., and reexport assembled produc generated exports of about $26 billi last year. The rub: They bought ju 2% of their components in Mexico.

Some multinationals are giving lo suppliers a boost. IBM de México, wh exported $700 million in personal co puters and other equipment last ye from its Guadalajara plant, helped el tronic-parts maker Elamex acquire a vanced technology to produce circ boards. This year, Elamex expects sell $85 million worth components to custome such as Black & Decl Corp. and rocket build Martin Marietta Co That's a nice chunk change. But it will ta more than a few enterpr ing companies to create export boom. Unfortuna ly, Mexico can't afford wait too long.

By Elisabeth Malkin Mexico City

MEXICO'S HUGE TRADE IMBALANCE



COMMENTARY

By Christopher Farrell

THE WRONG WAY TO BALANCE THE BUDGET

In the early days of the American republic, financial panics often led to steep declines in economic activity. Yet the last time a financial crisis triggered an economic collapse was the Great Depression. In the half-century following World War II, financial blowups have had minimal impact, and the economy has enjoyed a relatively smooth ride.

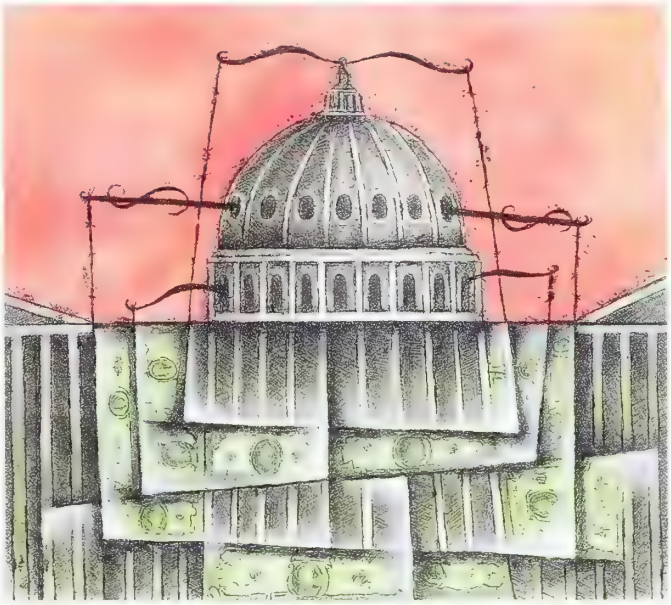
Now, Congress confronts the possibility of returning us to the chaotic days of yore. In the coming weeks, after years of debate, the Senate will decide whether to require the federal government to balance its budget. Many GOP lawmakers back the amendment. They shouldn't. The Balanced Budget Amendment would strip away much of the government spending that cushions the economy in hard times—just when disinflation and the prospect of deflation are raising the odds of financial crises.

The U.S. economy is a remarkably stable system, in large part because of the government's expansive safety net. Federal deposit insurance, for example, prevented the collapse of the savings-and-loan industry in the late 1980s from turning into a depression of the 1990s. A market collapse in Mexico sparks jitters in the U.S. but not much more.

NEEDED NET. Impose the Balanced Budget Amendment, however, and the system breaks down. Today, as soon as the economy begins to slump, government tax collections fall, and government transfer payments, such as food stamps, increase. The result is higher deficit spending during recessions—but these automatic stabilizers also put more money into the hands of Americans precisely when they most need it.

A Balanced Budget Amendment, by contrast, would require an explicit vote of Congress to run a larger deficit to counteract an economic slowdown. Given the current climate against deficits, politicians may be reluctant to approve large-scale deficit spending until a recession is well under way. The result? Bigger swings in the economy and a far more volatile financial system.

This at a time when changing economic conditions are creating a world where stability will be particularly in demand. For years, the powerful interaction of inflation hawks at the Federal Reserve Board, bond-market vigilantes, and the new world economic order have been exerting a firm downward pressure on prices.



Flexibility is what makes the U.S. economy so stable. But if it can't bend, it may break

As a result, "we are a lot closer to the edge of deflation than we have been in some time," says Edward E. Yardeni, chief economist at C.J. Lawrence Inc.

The Fed, for one, is pursuing an austere monetary policy toward its goal of wringing inflation out of the economy. By almost any measure, the U.S. money supply is growing at an anemic rate—hardly fertile ground for price increases. Similarly, bond-market investors send interest rates sharply higher on any hint of inflation news. "The bond market will do whatever is necessary to make sure inflation won't take off," says Charles I. Clough Jr., chief investment strategist at Merrill Lynch & Co.

Meanwhile, with the collapse of communism and the embrace of freer markets by much of the developing world, the supply of goods, services, capital, and labor is soaring. White-hot domestic and international competition helps explain why last year's inflation rate in the U.S., measured by hourly compensation, was the lowest since 1949—easily offsetting price increases of many commodities and crude-materials prices. Disinflation is here to stay.

VICIOUS CYCLE. So what? In a world of low inflation, the risk from unexpected financial crises soars. A stock market crash, a bank failure, or a drop in the dollar's value could send asset prices plunging. Suddenly, interest payments become onerous. Credit contracts. This is the sort of vicious cycle that was common in the pre-World War II era—and that deficit spending later eased. "The stability of our economy is drastically diminished when the federal government is powerless to intervene to prevent a disastrous debt deflation," says Hyman P. Minsky, an economist at the Jerome Levy Economics Institute at Bard College.

The Balanced Budget Amendment wouldn't leave us completely defenseless. The Fed always can open the money spigots to offset the immediate impact of a financial panic, much as it did following the stock market crash of 1987. But monetary policy is a tool best used to control inflation, not to counteract the cyclical ebbs and flows of the economy and financial markets. Getting the government's finances in order makes sense. But the Balanced Budget Amendment is a dangerous step back into the 19th century.

Farrell writes on economics.

Q&A

'I WANT TO TEAR THE INCOME TAX OUT BY ITS ROOTS'

A talk with House Ways & Means Chairman Bill Archer

Ways & Means Committee Chairman Bill Archer (R-Tex.) is the House GOP's point man on taxes. With his panel scheduled to start drafting its version of a 1995 revenue bill in a few weeks, he took time out to talk to BUSINESS WEEK *Senior Correspondent Howard Gleckman about prospects for the tax cuts proposed in the Contract With America and his hopes for broad-based tax reform.*

Q: *Will the Ways & Means Committee change the tax provisions of the Contract With America?*
A: If we can improve on the specific provisions, certainly we don't feel that we're denied the right to do that.

Q: *You support indexing capital gains for inflation. But critics say that's too complex. Is there a simpler way to do it?*
A: There really is not. But in this day of computerization, I don't think the complexity will be that great.

Q: *Would you increase the capital-gains rate cut while eliminating indexing?*
A: I don't think so. Indexing is the most important long-term reform that we can put into the code. The only way we can increase real family wages is to increase productivity. We can only increase productivity if we add additional savings that are invested to buy tools. I don't want to dismiss the fact that you've got to upgrade the skills of workers. But if you don't have the tools, you reach a blind alley. If we are going to have greater productivity, we must have more savings and more capital investment.

If we continue to [discourage] savings, we force ourselves into dependency on foreign savings or a lower standard of living. If we really wanted to be competitive, we'd probably reduce the capital-gains tax to near zero.

Q: *It seems even that is a relatively small change compared to broad tax reform.*
A: Absolutely. We have reached the point where we cannot fix the current income tax and should look at replacing it with a broad-based consumption tax. We've ended up with a tax which is heavy in the cost of compliance, enforcement, and litigation. We have a code which has effectively taken away most of the incentives for savings and [boosted] the underground economy. It does not permit us to remove the cost of government from the price of our products sold overseas nor does it permit us to charge a proportional share of the cost of our government to foreign products that come into this country.

I want to tear the income tax out by its roots. I want to get the income tax out of our individual lives completely.

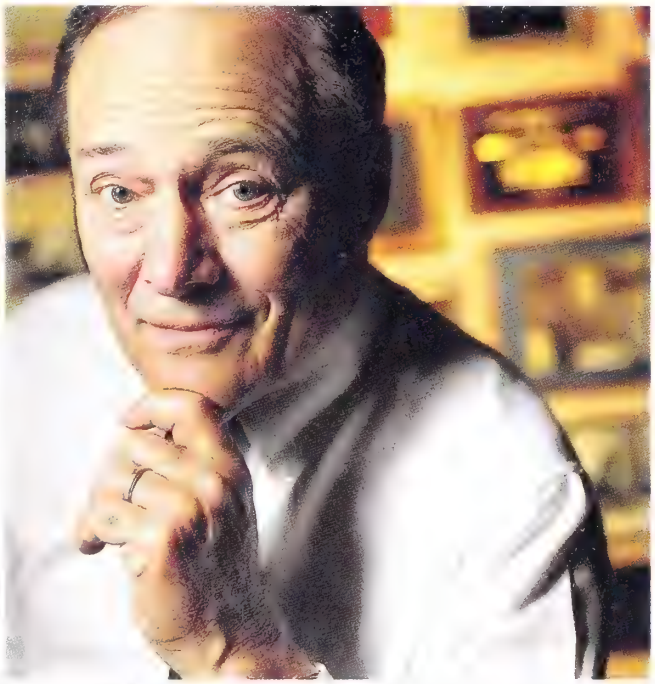
Q: *Are the tax changes in the Contract With America really only a Band-Aid?*
A: They are a limited incremental reform.

Q: *Can this Congress pass tax reform?*
A: That's a hope I would share. But before it can happen, President Clinton has to be willing to sign it, and I do not sense he will do that. I suspect the liberal Democrats in the Senate will throw up major roadblocks.

It could pass the House, if we can develop a consensus. We've still got to get into the debate between a flat tax and a broad-based consumption tax before we can see the Republican Party behind one proposal. I look forward to seeing full-blown debate sometime this year.

Q: *Why do you prefer a broad-based tax on consumption instead of a flat tax?*
A: I was for a flat tax in '86. But [President Reagan] elected to continue the very arcane income-tax system. I jumped ship on them and opposed the '86 [Tax Reform] Act. It was one of the best things I ever did.

I've gone beyond [the flat tax] now. At that time, we [did not recognize] that our future was going to be [tied] to competition in a global commercial marketplace. If all we could get was a flat tax, certainly that would be an improvement. But the flat tax does not eliminate the Internal Revenue Service from our lives. It still taxes savings at between 17% and 20%. It does nothing to get at the underground economy, nothing for the way we charge for products at the border. More importantly, it leaves the roots of the income tax in the ground.



RADICAL RUMBLE

"If all we could get was a flat tax, certainly that would be an improvement. But the flat tax does not eliminate the Internal Revenue Service from our lives."

— BILL ARCHER

ON BROWN: AKING A FEDERAL CASE

ouse GOPers plan to press Justice for a wider probe

ommerce Secretary Ronald H. Brown's troubles are mounting by the minute. After a year-long in-stigation of Brown's tangled financ- House Government Reform & Over-ht Committee Chairman William F. nger Jr. (R-Pa.) is preparing a de-led report for the Justice Dept. that 's out a more extensive array of alle-ions against the Commerce chief than publicans have charged so far.

While Justice has already launched a eliminary probe that could lead to the ning of a special counsel by spring, nger is expected to endorse the ap-ntment of an independent counsel. at would transfer responsibility for investigation from Congress to a osecutor with sweeping investigative wers. What's more, Clinger wants the uiry to include examination of two w allegations:

A report in the *Los Angeles Times* it while at Commerce Brown might ve profited from stock in Kellee Com-nications Inc., a small company that s a pay-phone deal with AT&T. Con-ted by BUSINESS WEEK, AT&T officials they were unaware of Brown's stake the venture and otherwise have no nment.

That Brown provided "inaccurate, in-nplete, and misleading" information congressional investigators about his e in trying to secure oil deals while ving as chairman of the Democratic tional Committee (DNC).

By the end of February, Clinger in-ds to give Justice of-als a point-by-point ort alleging instanc-in which Brown may ve broken federal vs. Commerce Dept. keswoman Carol milton says Brown ill cooperate fully h any Justice Dept. estigation." Hamilton ls that Brown is con-ent that his business alings have posed no flict of interest with duties as Commerce cretary and that he l "be fully cleared of y allegations" of ongdoing.

There's no doubt that Clinger's assault on Brown is tinged with partisan motives. Nevertheless, it will be hard for Justice to resist pressure from Clinger's panel to name a special counsel. And while President Clinton continues to support his Commerce boss publicly, he is no longer expected to name Brown to head his 1996 reelection campaign. "On that score, the Republicans have already accomplished their No. 1 goal," says an aide to House Democratic leaders. Another senior Democratic staffer worries that Brown's troubles "are beginning to have a corrosive effect on the President's overall agenda."

EYE OF THE STORM: *Expect a counterattack*

But Brown's woes don't end there. The naming of an independent counsel will increase pressure on Brown to resign, despite the high marks he has won from corporate executives for vigorously promoting American exports. Concedes one weary Clintonite: "It's looking real bad."

The allegations arise from Brown's interest in a small consulting business—First International Communications Corp.—and his complex transactions with his partner in the company, Nolanda Hill. Republicans on Capitol Hill charge that Brown concealed $400,000 in 1993-94 income from the sale of his stake in struggling First International, in which he invested no money and claims to have had little direct involvement.

PAPER TRAIL. Company documents obtained by BUSINESS WEEK (BW—Feb. 27) show that while Brown has insisted he was a silent partner at First International, he was involved in two of its ventures to buy oil at discount prices in 1992: from SONANGOL, the state-owned oil company of Angola, and from a member of the Saudi royal family. The oil deals, which collapsed, stood to net Brown millions.

So far, Brown has kept a low profile, hoping the controversy will blow over. But with Republicans opening attacks on so many fronts, that's unlikely. Don't be surprised if the persuasive Brown launches a new promotion campaign: selling himself as an honest wheeler-dealer.

By Douglas Harbrecht, with Richard S. Dunham, in Washington

Brown's Mounting Woes

Congressional Republicans contend that an independent counsel is now needed to examine the beleaguered Commerce Secretary's tangled personal finances. Brown denies any wrongdoing. Here are the GOP's main allegations against Brown:

MISLED House Government Reform & Oversight Committee Chairman William F. Clinger Jr. (R-Pa.) by claiming he played a passive role in First International Communications Corp.

CONCEALED $400,000 in payments from business partner Nolanda Hill. Provided false, incomplete, and misleading information on his Public Financial Disclosure Report.

VIOLATED federal conflict-of-interest laws by not divulging his stake in a company with a multimillion-dollar joint venture with AT&T.

DATA: BUSINESS WEEK

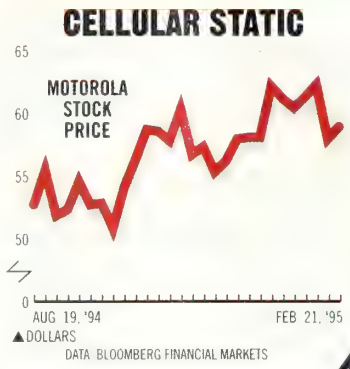
TELECOMMUNICATIONS

BURNED BY BUSY SIGNALS

Why Motorola ramped up production way past demand

When is good news just too good? Ask Motorola Inc. In January, the company reported record fourth-quarter earnings of $515 million, up 51% from 1993, on sales of $6.45 billion, a 29% hike. But on Feb. 17, the wireless-communications giant admitted its profits—which were as much as 18% above Wall Street estimates—had been aided by overzealous ordering of cellular phones by retail distributors. Now, the company says, dealers are swamped, despite record Christmas sales, and that has hurt new orders for phones. The bad news sent Motorola's stock tumbling almost 10%, to 57¾.

How could Motorola get hit by such a blooper? Industry sources say several distributors, including AirTouch Communications and Baby Bells such as U S West and BellSouth, drastically overordered. They were acting defensively. During the 1992 and '93 Christmas shopping seasons, Motorola wasn't able to meet consumer demand for handsets, forcing the Bells to turn away business.



Not wanting to miss out in 1994—especially with some Bell cellular units posting growth rates of over 40%—the companies placed orders early and often. And they didn't warn Motorola to throttle back on production until it was too late. "The phone companies didn't pay attention to the situation," says Alan H. Goldfield, chief executive of Motorola distributor CellStar Corp. "They were shocked when the phones kept coming."

POOR POLICING. They shouldn't have been. Schaumburg (Ill.)-based Motorola worked furiously last year to boost cellular-phone output. It also expanded production of semiconductors, a key component. Unhampered by bottlenecks, the company had no problem meeting Christmas demand, real or imagined. But Motorola didn't properly police incoming orders. "Motorola should have known that orders were going beyond demand," says Hambrecht & Quist Inc. analyst Rakesh Sood.

Motorola refuses to pinpoint which distributors caused its heartache. Bell South Corp. is mum, too. AirTouch admits it overordered but says special deals have helped push inventory out the door. U S West says it beefed up fourth-quarter orders to make sure it had stock on hand for promotions in early 1995. Distributor Goldfield, sitting pretty with below-normal inventories, says several Baby Bells have offered to sell him excess phones "at below cost."

Most observers think the overhang will disappear by early April. But Sood says the inventory problem could slice $39 million, or 9%, from Motorola's first-quarter profits, which he figures will now come in around $389 million on sales of $6.18 billion, 5% less than his previous estimate. Analysts don't expect any long-term fallout for Motorola. Except that Motorola may try to make next Christmas a bit less of a bell-ringer.

By Kevin Kelly in Chicago

AUTOS

A $750 MILLION FIASCO?

A seat-belt recall could affect 6 million Japanese cars

It could remain a quiet preliminary investigation—or turn into one of the biggest automobile recalls of all time. At the very least, it should ensure that from now on carmakers offer a lifetime warranty on seat belts.

The National Highway Traffic Safety Administration has identified more than 6 million Japanese-built vehicles outfitted with possibly defective seat belts made by Japan's Takata Corp. The suspect buckles are used by every Japanese carmaker except Toyota Motor Corp. and are on some vehicles built for General Motors, Ford, and Chrysler. The potential cost of a recall: $750 million or more.

The feds are just beginning their investigation. But a recall is "almost inevitable," says Clarence M. Ditlow, executive director of the Center for Auto Safety, a consumer group in Washington, D. C. "The real question is, are you buckling up properly—with a buckle that may fail?"

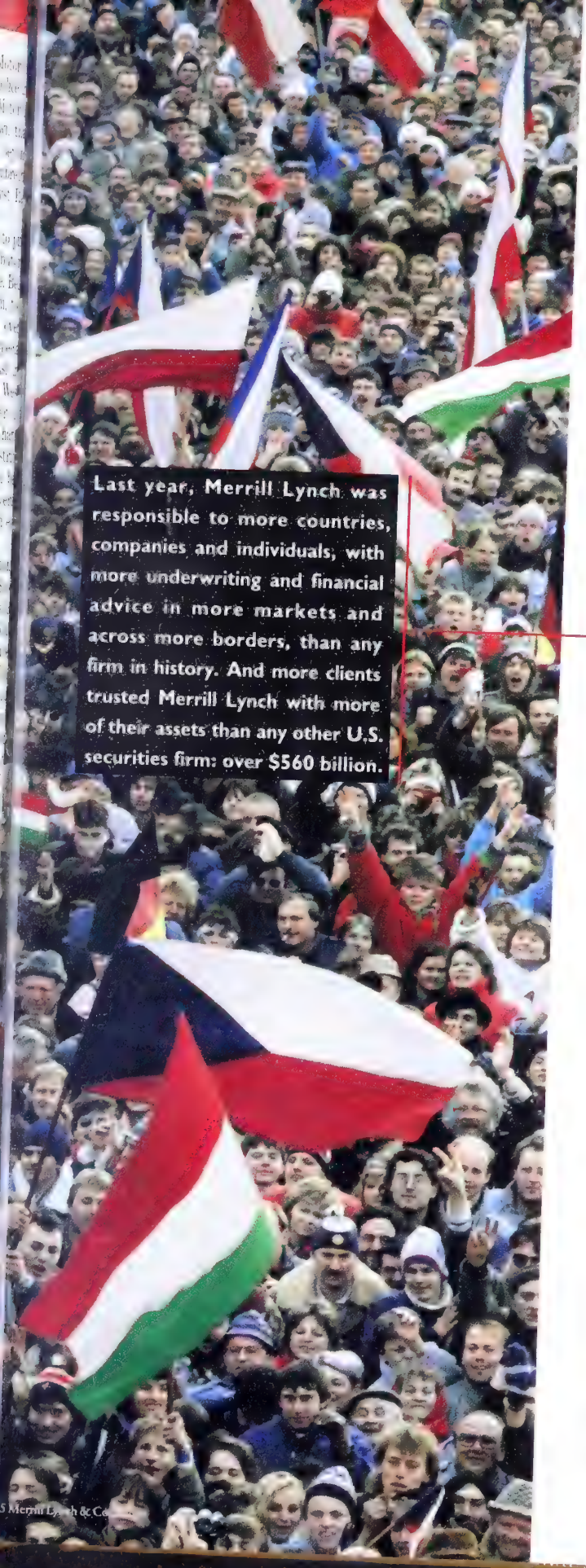
SUSPECT: *Takata belts may fail in accidents*

NHTSA last summer asked American Honda Motor Co. for evidence of failure of certain Takata belt buckles in 1986 to 1991 Civics. Honda found 6,800 cases where it had replaced or repaired the seat belts in the 1.5 million cars under investigation. NHTSA in October upgraded the Honda inquiry to an engineering analysis, the step before the full-fledged investigation leading to a recall. It also started looking at other Japanese brands.

Honda has reported eight accidents that may involve the belt and is a defendant in three related lawsuits. But it downplays the problem. "There was not a single confirmed instance where the belt failed during an accident," says a U. S. spokesman. While admitting "the broken [release] buttons are a fact," Takata's Hiroji Nakano, general manager of legal affairs, says "Our buckle . . . is state-of-the-art."

Honda already covers its belts, in fact, with a lifetime warranty, a policy instituted to head off a recall in 1986. Now that warranty may cost far more than Honda ever expected.

By Larry Armstrong in Los Angeles with Robert Neff in Tokyo



THE DIFFERENCE BETWEEN BEING BULLISH ON AMERICA AND BULLISH ON THE WORLD

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HOLLYWOOD

THEY'RE STUFFING MONEY THROUGH THE STUDIO GATES

DreamWorks' all-star troika is a mighty magnet for backers

Tucked in the shadow of MCA Inc.'s Universal Studios in Los Angeles, the small, adobe-style headquarters of Hollywood's newest studio-in-the-making is hopping. Nearly 60 staffers take meetings, do lunch, and sift through story ideas. Silicon Graphics CEO Edward R. McCracken has dropped by, as have officials of Bell Atlantic and South Korea's Samsung. Everybody, it seems, wants to do a deal.

The illustrious founders of DreamWorks, meantime, have been crisscrossing the country in search of financing. And now it appears that Steven Spielberg, Jeffrey Katzenberg, and David Geffen are on the verge of securing more than $2 billion in capital. While the trio has contributed an estimated $100 million and will control two-thirds of the company, they are wrapping up negotiations with Samsung Electronics Co. and others for up to $900 million in equity. Sources close to the group say a consortium that includes Bankers Trust New York Corp. is putting together a $1 billion line of credit.

"HOW CAN YOU LOSE?" DreamWorks' game plan: 12 movies a year by decade's end, along with TV shows, interactive games, animated films, and a record label. All that means partners. Capital Cities/ABC Inc. has already put $100 million into a joint venture to produce TV shows. McCracken wants DreamWorks to help Silicon Graphics develop a futuristic, digitized studio. Microsoft Corp. is negotiating to invest in the interactive-game unit, investment bankers say. And DreamWorks is talking to three pay-movie channels—Encore!, Home Box Office, and Showtime—about cable distribution deals. "All you do is look at their track record," says Encore! Chairman John Sie. "How can you lose?"

DAVID GEFFEN

JEFFREY KATZENBERG

STEVEN SPIELBERG

In Their Dreams

Companies that may do deals with DreamWorks

FINANCING

SAMSUNG, BELL ATLANTIC With four others, they have emerged as possible investors. DreamWorks wants $900 million for a one-third interest.

BANKERS TRUST, CHEMICAL BANK May assemble up to $1 billion in credit.

STRATEGIC PARTNERS

ABC Invested $100 million in joint venture to produce TV shows.

SILICON GRAPHICS Looking to create a futuristic digital movie studio.

MICROSOFT Could invest in interactive games and movies.

MCA, which distributes Geffen's records and several Spielberg films, hopes to do the same for DreamWorks movies and videos. But that may depend on whether MCA's Sidney J. Sheinberg and Lew R. Wasserman can cut new deals with MCA's parent, Matsushita Electric Industrial Co. Sheinberg's and Wasserman's close personal ties with Spielberg and Geffen are the key to any relationship MCA might have with DreamWorks. If they leave, MCA can forget about doing a deal.

Katzenberg, the former chairman o Walt Disney Co.'s studio, has mea while been lining up key talent. Singe Elton John, who performed and co wrote *The Lion King* soundtrack fo Disney, will likely do the same for DreamWorks animated film. Gary Da vid Goldberg, producer of TV hit *Fam ily Ties*, has also signed on and ha two pilots in the works. Helene Hah Katzenberg's top lawyer at Disney, ha joined the team, as has former Disne Treasurer Michael Montgomery. Ka zenberg went after *Home Improveme* creator Matt Williams, whose bloc buster show should earn $125 millio this year for Disney in syndication fee But Williams ultimately renewed h deal with Disney.

Film industry o servers speculate th Katzenberg may als have eyes for Di ney's Miramax Pi tures, the "art-house film company h signed to a five-ye deal while still at Di ney in 1993. Mirama earned 22 Academ Award nomination this year for such hi as *Pulp Fiction* an *Bullets Over Broa way*, and its feist founders, Bob an Harvey Weinstei have become th toast of Hollywoo One source says se eral interested parti have approached th Weinstein brothe about life after Di ney. But unless Di ney Chairman M chael Eisner le them out of their contract, Mirama may be tied up for three more years

Still, the DreamWorks cast is bou to expand even more this spring, wh Geffen is freed from his MCA reco deal. He's expected to lure Morris O tin and Lenny Waronker, the legen who built Warner Bros. Records In into a powerhouse before departing r cently. Who's next? Hard to say. B Hollywood can't seem to get enou of Spielberg, Katzenberg, and Geffer

By Ronald Grover in Los Angel

On the drawing board: 12 movies a year, plus interactive games, animated films, and a record label

One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. 1-800-543-4636

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SPORTS BUSINESS

ATLANTA SCRAPES TOGETHER A SEASON

How the Braves are coping with iffy sponsors and tepid fans

After Ted Turner bought the woeful Atlanta Braves in 1976, he befuddled the major league establishment with a bizarre mix of promotional events. Turner dropped the starting flag at pregame ostrich races and personally pushed a baseball around the bases with his nose. A fan favorite: Wedlock & Headlock Night—a pitcher's mound wedding before the game, pro wrestling afterward.

All of which pales next to the circus-in-the-works that is the 1995 baseball season. With no end in sight to the six-month strike, the Braves, like 27 other major league teams, are slapping together the most ad hoc schedule in sports history. As 135 has-been and never-was replacement ballplayers stretch at the club's West Palm Beach (Fla.) spring camp, executives are revamping their ticket-sales program, rejiggering promotions, and trying to turn a no-name roster into a credible team. "We're the caretakers of the game," declares John Schuerholz, general manager of the Braves. "Baseball has to be served."

WAIT AND SEE. The replacement ploy may keep balls flying, but it won't keep the Braves' financials aloft. True, these players won't draw anything close to the team's normal $50 million payroll—but they won't draw many fans either. Ticket revenue could drop 70%. Television proceeds, too, will suffer if ratings bomb, as expected. In fact, the strike already has cost Turner Broadcasting System Inc., the Braves' parent, $15 million.

No team will have an easy time in this ersatz season. The Florida Marlins placed 1,000 phone calls to round up enough bodies for a spring roster. The struggling Milwaukee Brewers have recruited business leaders to help sell 10,000 season tickets. And at 23 ballparks, the Teamsters are threatening to block deliveries and boycott, demonstrating odd solidarity with players who never saw a picket line they wouldn't cross.

The Braves' front-office scrambling is evident. Since the players walked last Aug. 12, Promotions Director Miles McRae has hustled to make up product giveaways, player appearances, and social events from late-season games. Only one Braves sponsor, candymaker Leaf Inc., has canceled all ties for 1995, and stalwarts Anheuser-Busch, Coca-Cola, and Delta Air Lines are proceeding with full sponsorship programs. But half of last season's 105 backers are still undecided. "A lot of sponsors want to do things, but they don't want to do it until late in the season" when regular players are expected back, says McRa

Ticket sales look more promisin Fans who don't renew season ticke will lose their claim to priority seatin when the new Olympic Stadium ope for baseball in 1997. Such strong-ar tactics have helped the Braves se 20,000 seats, down only one-third fro last year, with 2,000 on the waiting lis But single-seat sales won't fare as we The Braves can hardly run ads featu ing replacements or those on strike. lieu of that, the club is cranking up nostalgia theme, celebrating the tean 30th season in Atlanta. It's not exact as compelling a draw as Greg Maddu fastball, and Braves officials conce they could lose $185,000 per game ticket revenue from last year's leve until striking players retur

If fans don't come to t stadium, they likely wor watch on TV either—a wor at TBS, which uses the Brav as a source of cheap progra ming. On Feb. 21, TBS a nounced it would broadcast regular schedule of Brav games, even with no-nam in uniform, and advertise are staying on board for t 122 games TBS plans to car But the cable network co be liable for costly payba or makeup advertising viewers don't materiali "Advertisers will ultimate end up paying only for w they get," says Kevin O'M ley, senior vice-president programming at TBS Sport

It's up to Schuerholz a field manager Bobby Cox assemble a team that peo will want to watch. Most the roster will come from t minor leaguers working out in the Fl ida sun today. They're none too impr sive, but Schuerholz insists he's not j going through the motions. "It's alwa important to have a winning record. you compete, you've got to win," says. After all, even ostrich races a won by somebody.

By David Greisi in West Palm Beach, F

PLAYING BALL WITH JOE NO-NAME

If substitute teams really take to the field—and it could happen—here's what the Atlanta Braves management confronts:

TICKETS To keep their seats for next year, fans are renewing season tickets—but attendance could drop 75%.

MARKETING It's tough to market a team with no household names. Single-seat sales are expected to suffer.

PROMOTIONS Last year, the Braves scheduled 65 product giveaways. Only 15 are expected in '95.

TELEVISION Turner Broadcasting System, which televises Braves games, may have to give rebates to advertisers.

ON THE FLY

First replacement players, now no beer: The Teamsters' vow not to make deliveries while the strike lasts raises the hurdle for owners

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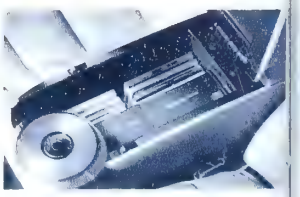

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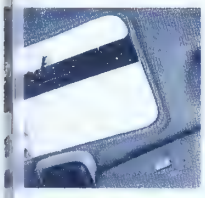

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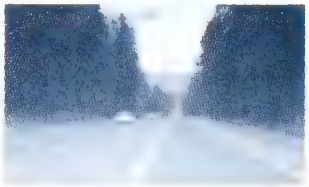

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EDITED BY KEITH H. HAMMONDS

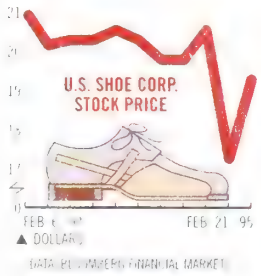
NEW FIRES ON TOBACCO ROAD

AFTER SMOLDERING FOR months, antitobacco litigation flared anew. On Feb. 21, Florida Governor Lawton Chiles took the first step toward recovering state-financed Medicaid costs run up by tobacco users. Emboldened by Florida's Tobacco Liability Law, which squeezed past tobacco lobbyists last year, the state's attorneys will assert that Florida taxpayers are victims unfairly paying the price for smoking—to the tune of $1.4 billion in Medicaid bills over five years. Four days earlier, a New Orleans federal judge certified a class-action status for a suit brought by a cadre of the nation's top plaintiffs' attorneys on behalf of millions of smokers. The tobacco industry, which has never paid a dime in court penalties, has vowed to snuff out both legal attacks.

CLOSING BELL

PUMPED BACK UP

Does U.S. Shoe have rubber soles? On Feb. 17, it announced it had broken off talks to sell its footwear business after rival Nine West Group lowered its original $600 million bid for the unit. Predictably, U.S. Shoe's stock dropped 16% on the news. The next trading day, though, it bounced smartly back. In turning down Nine West, U.S. Shoe said it would explore separating or selling its three businesses—a move some shareholders have pressed for. Its profitable Lenscrafters unit is eminently salable; not so its apparel retailing business.



THE WHITE HOUSE WEARS A HARD HAT

THE CLINTON ADMINISTRATION hadn't done much to win the hearts and votes of organized labor—until Feb. 20, when Vice-President Al Gore told AFL-CIO leaders meeting in Florida that the President would issue an executive order barring companies from federal contracts if they hire permanent replacements during strikes. Gore also said Clinton will veto GOP efforts to repeal federal laws requiring construction and service companies to pay the prevailing wage on government contracts. Commented Teamsters President Ron Carey: "The Administration looked around to see who their friends are, and did something about it."

LOOKING TO LIGHTEN PUNITIVE DAMAGES

HOUSE REPUBLICANS ARE COBBLING together business-friendly tort-reform legislation scheduled for a vote the first week in March. Corporate America, which has fought for such a law without results for more than a decade, could have much to celebrate. GOP legislators plan to extend a limit on punitive damages—the greater of three times a victim's economic losses or $250,000—to almost all civil lawsuits as well as product-liability cases. In addition, drug companies and medical-device makers hope that the final legislation will prevent product-liability lawsuits against products approved by the Food & Drug Administration.

HEADLINER: JOEL ALVORD

BLOCKING AND TACKLING IN NEW ENGLAND

New England bankers call their business a contact sport. So it was when Shawmut National Chairman Joel Alvord offered to sell his bank to rival Fleet Financial Group—announcing a $3.7 billion deal just two weeks later, on Feb. 21.

Alvord had little choice: Shawmut's finances were weak, speculators were buying stock and pushing for a sale, rivals were itching to bid. "If word got out he was ready to sell, there would have been a feeding frenzy," says a banker involved in the deal.

At the same time, Alvord staged a power play on his other nemesis, Bank of Boston. For one year, Bank of Boston had been secretly negotiating a merger with Fleet, say sources close to the talks. Such a deal would have forced Shawmut to find a buyer outside of New England, likely for less money than Fleet could offer.

Now, Bank of Boston itself will have to look beyond the region if it wants to grow. And Alvord's end run makes him chairman of New England's largest bank. But not for long: Under terms of the deal, he's out of a job in three years.

By Geoffrey Smith

ALCOA'S SHINY PROSPECTS

FIVE YEARS AGO, CARMAKERS used 160 pounds of aluminum per automobile. That's now up to 210 pounds. On Feb. 22, Alcoa announced plans to build a $30 million auto-parts plant near Toledo. Hear the steel companies pacing nervously? Already, Alcoa has collaborated with Audi on an aluminum car, now selling in Europe. The metals giant will assemble components in Toledo for the U.S. auto industry starting late this year. Alcoa says it already has contracts to supply at least one carmaker with structural parts.

HANSON DOES A 'DEMERGER'

DAVID CLARKE, THE RESTIVE CEO of Hanson's American operations, finally will have a company to call his own. Hanson announced on Feb. 2 that it will "demerge," spl ting off 34 businesses to cr ate U.S. Industries Inc., be headed by Clarke. Clark family business was Hanso first U.S. acquisition in 19 Lately, though, he's be overshadowed by British C Derek Bonham in the race inherit Hanson's top job fr the soon-to-retire Lord Jan Hanson. The deal also cu Hanson's debt by a third, $2.5 billion, enabling it to turn to the acquisition trai

ET CETERA . . .

- Mars dumped Saatchi Saatchi, shifting its ads three other agencies.
- Steve Jobs's NEXT Comp er made money, as its so ware found acceptance.
- The Supreme Court fused to hear Apple's c against Microsoft.
- The nation's capital is " solvent," says the Gene Accounting Office.

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N CAPITOL HILL, NIT-PICKING IEVER SEEMS TO GO OUT OF STYLE

n the November elections, Republicans vowed to cut through red tape and make government run more smoothly. But now that they control Capitol Hill, GOP lawmakers e falling into the same trap that snared their Democratic edecessors: a tendency to micromanage decisions made in e White House and the nation's 50 statehouses.

Indeed, House Republicans are second-guessing most White use foreign policy decisions, from where to locate the S. embassy in Israel to such constitutional issues as the eslishment of a bipartisan board to oversee decisions made the Defense Secretary. And they're giving the same onceer to President Clinton's domestic enda.

Much of what the GOP is doing is legitate oversight. But increasingly, Reblicans are guilty of the same nit-pick; that infuriated them in the 1980s, en Democrats ran Congress and the P held sway in the White House. "In ashington, hypocrisy is a constant phenenon," says American University poeal scientist James A. Thurber.

EP DENIAL. But the President isn't the ly one feeling the tight Republican p. Although they swept the midterm ctions by decrying the "nanny state" and vowing to slash ashington's presence in people's lives, GOP lawmakers are en backing away from their pledge to turn federal proams over to the states without strings attached.

Just look at the crime bill recently passed by House Reblicans. Increased state flexibility was a rallying cry for GOP vmakers in early February when the House reversed a 94 aid plan requiring local governments to hire more cops. t the new bill is even less flexible than the old law when it nes to building prisons: It gives states $10.5 billion—but ly if they meet strict federal sentencing requirements.

The party's seeming ambivalence over shifting power to the states reflects a growing chasm between the GOP's libertarian wing and some tradition-bound statists—including some new committee chairmen who have had their first taste of power and now want to keep it. The next test of the GOP's willingness to loosen its grip on central power is welfare reform. Ostensibly, the House GOP plan would turn the program over to states along with some federal funding. But that money comes with tight strings, too. States could not assist legal immigrants or mothers under 18, and recipients would be booted off aid after five years. "When it comes to welfare, House Republicans can't quite let go," says William A. Niskanen, chairman of the libertarian Cato Institute.

BOSNIA: *Congress is butting in*

MANY CHIEFS. The nastiest fights, however, are inside the Beltway over control of foreign policy that's normally the President's domain. During the Reagan years, Republicans howled when Hill Democrats tried to block aid for Nicaraguan rebels. But these days, it's the Republican Congress that's trying to force a Democratic President to lift the arms embargo against Bosnia and limit U.S. participation in U.N. peacekeeping.

Emboldened GOP lawmakers are micromanaging even the tiniest matters. House Speaker Newt Gingrich (R-Ga.) has vowed to close the Bureau of Labor Statistics if it doesn't change the way it figures inflation. And Senate Commerce Committee Chairman Larry Pressler (R-S.D.) has demanded income records from such public broadcasting personalities as Garrison Keillor and Mr. Rogers.

As the debate over the Contract With America intensifies, the GOP must also struggle over how much to micromanage. It's one thing for those on the outs to promise to end "business as usual." But now that they wield power, Republicans have to prove they're willing to give some of it up.

By Howard Gleckman

CAPITAL WRAPUP

ENATE OPENINGS?

The chances of the Democrats reapturing the Senate in 1996 may be etting slimmer: Senators Sam Nunn D-Ga.) and Howell Heflin (D-Ala.) re mulling retirement. Heflin, recovring from heart surgery, is worried bout his health and a surging GOP in he deep South. Nunn, who lost the rmed Services Committee chair hen the GOP seized the Senate, is ustrated with being a conservative a party dominated by liberals, intiates say. The Democrats lost all 11 open-seat elections last year and would be hard-pressed to retain either seat.

WELL-AGED REFORM

▶ Congress may have a convenient excuse to duck Social Security's solvency problems this year. An advisory commission of private experts is off to a slow start and hasn't begun grappling with ways to rescue the system from expected insolvency by the year 2020. If the group misses its June deadline, Congress can postpone the matter at least until 1996.

GRAMM'S GUMSHOE

▶ Republican Presidential candidate Phil Gramm has hired a researcher to investigate . . . Phil Gramm. The meticulous Texas senator gave Austin operative Duke Bodisch a 40-day contract to inspect the Gramm family laundry, among other missions. Gramm wants to know what documents about his background are available to snooping reporters. In 1992, candidate Bill Clinton commissioned a similar effort—which did little to ease his later woes from character issues.

EUROPE

WILL EUROPE ROAR DOWN THE INFOBAHN?

Having stalled out in computers, companies are pouring money into I-way products

Europe may have lost the computer wars to the U.S., but it's hoping for a big comeback in cyberspace. European companies—from giant telecom operators to pint-sized startups—are looking to get in on a high-tech revolution. This time it's the nascent market in multimedia and other I-way products, an industry that could be generating revenues of $39 billion in Europe alone by 2000.

Even as leaders of the industrial world met in Brussels in late February to sketch a global road map for the Infobahn, European companies were toiling furiously to make sure they wouldn't be left behind (table). In Germany, Mercedes-Benz and BMW were testing a Deutsche Telekom system to design cars faster via computer links with suppliers. British Telecommunications PLC was developing software for airlines to run interactive in-flight entertainment systems that offer everything from stock quotes to catalog shopping. And French software company CAP Gemini Sogeti was putting the final touches on a multimedia package that allows travel agents and their clients to take virtual-reality tours of cities and hotels.

A TECHNICIAN FIXING A LUFTHANSA PLANE

EUROPE'S MULTIMEDIA DRIVE

- Hundreds of small companies are producing interactive CD-ROM titles in such areas as art and business
- Deutsche Telekom is working with Microsoft and IBM to replace its text-driven online service with a snazzy new service using graphics, sound, and video images
- Lufthansa is working with Deutsche Telekom on a multimedia program to speed aircraft repairs
- British Telecom is launching one of Europe's most ambitious interactive television experiments with the help of Oracle and Apple
- France's Thomson Multimedia recently allied with Sun Microsystems in interactive services such as video-on-demand and home shopping

DATA COMPANY REPORTS, BUSINESS WEEK

BIG PUSH. To make sure this market will develop as fast as possible, Europe's digital hopefuls are turning up the heat on governments. They are pressuring policymakers to set international standards and accelerate telecom deregulation on the Continent, especially in Germany. "It's vital for Europeans to understand the cake is being cut now," says Rana Mainee, senior consultant at Inteco Corp., a British market research company.

On the consumer side, cable companies, water utilities, and telephone operators are pouring millions into interactive television tests. One of the most closely watched experiments is BT's expansion of its video-on-demand trials from 60 households to a market test over fiber-optic wires reaching 2,500 homes this summer. The $30 million trial will gauge how much Britons will pay for such goodies as home shoppir banking at home, fashion videos, a Hollywood movies. All sorts of comp nies, including travel agency Thom Cook, bookseller W. H. Smith, a record company Polygram are parti pating. Not to be outdone, the Germ city of Stuttgart is starting an ev bigger trial of 65 interactive progra to 4,000 homes, businesses, hospita and schools.

Yet while interactive TV has receiv the most publicity, market researche say the payoff is still years away. Cre

multimedia products for business generate substantial revenues a lot er. That's why Deutsche Telekom been pouring $50 million a year into iness applications. The phone opera- will soon launch a multimedia proj- at Lufthansa to slash aircraft re- r times. When problems arise in it, on-board computers will relay sig- to the next airport, where repair ws can order parts and hold video- ferences with experts. Other pro- s include a program to introduce administration at state and local ernment and teleservices for medi-, education, and training.

as the giant companies invest mil- s, hundreds of startups are also toil- over new hardware and software make the Internet hum with busi- s. Paris-based Focale 7 launched its timedia business with interactive ed- tional videos for the government on acco and nutrition. The company is seeking to market the videos in U.S. Focale 7 has also proposed a ect that would put a cornucopia of phics and visual materials on nce's 2 million small and midsize panies into an interactive video bank. Companies looking for nch partners could then access the bank.

TUAL WALK. There's a flood of new ROMs. Munich-based Discreet Mon- s/MacGuffin has produced a CD-ROM how to use multimedia technology banks, TV stations, media, and trav- gencies. The program has won praise former Apple Computer CEO John ley. Britain's three-year-old Dorling dersley Multimedia Ltd. has tripled production staff to 150 in one year to te new CD-ROM titles. And tiny Par- ased CD-ROM maker Montparnasse timedia is best known for its virtual through the Louvre.

urope is also coming on strong in egrown online systems. Infogrames ertainment, a 12-year-old French pany that started out designing ser- s for Minitel, the world's first online ice, is now launching its own on- product. Called Infonie and debuting March, it has lined up 50 content iders already. Infonie's slick, colorful ractive format may supercede the g Minitel system.

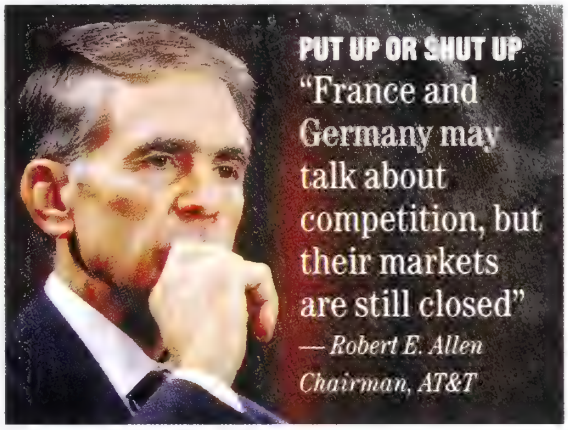
he range of European offerings is ing known across the Atlantic. "I e with low expectations and found panies that marry technology de- pment with the media world," says James Bernie Rice, director of consumer software at IBM Multimedia Publishing Studio in Atlanta. "Europe will win in edutainment, while the U.S. will dominate in shoot-'em-up games." Satjiv S. Chahil, vice-president and manager of Apple Computer Inc.'s new media division, routinely visits Europe and Asia to seek out interesting content developers. "I'm finding CD-ROM titles here the Japanese would love," says Chahil.

Even with such strengths, the real key to Europe's success in cyberspace will be a different corporate attitude. European companies once dithered forever in the lab only to see their technology commercialized by others. Now, the Europeans are innovating faster and racing new technologies to market. Europe so far has surprised everyone by getting out of the starting gate so fast in multimedia. If the new mind-set sticks, it may yet make it into the winner's circle.

By Gail Edmondson, with Marsha Johnston, in Paris and Julia Flynn in London

AT&T REALLY WANTS TO DISCONNECT THIS DEAL

On Feb. 25, telecommunications ministers from the top seven industrialized countries, along with the chief executives of most of the world's biggest phone companies, not to mention Vice-President Al Gore, will gather in Brussels for three days. Publicly, they will kick around the idea of a global Information Superhighway and how to build it. But behind the diplomatic niceties is a smoldering trade dispute: a proposal by Germany's Deutsche Telekom and France Telecom to buy a 20% stake in Sprint for $4.2 billion.



PUT UP OR SHUT UP
"France and Germany may talk about competition, but their markets are still closed"
—Robert E. Allen
Chairman, AT&T

This deal drives AT&T wild. The U.S. giant is furious that the German and French state-owned monopoly phone companies may soon own a 20% stake in the third-largest U.S. long-distance operator while foreign investors are virtually locked out of the two biggest markets in Europe. Says AT&T Chairman Robert E. Allen: "Countries like France and Germany may talk about competition, but their markets are still closed to us."

A determined Allen will be heading for Brussels to press the Germans and French to open their markets ahead of a 1998 deadline set by the European Union. But AT&T is doing more than complaining. It wants the Federal Communications Commission to make equal market access mandatory for foreign carriers seeking to get into the U.S. market. And it wants the Sprint deal put on ice until the French and Germans meet this standard. While Germany has agreed in principle that its market needs to be opened sooner, the French market remains resolutely closed.

Meanwhile, the Germans are organizing a European Union counterattack. They want the U.S. to end its current limit of up to 25% on foreign ownership of media and telephone companies. Says German Post & Telecommunications Minister Wolfgang Bötsch: "There should be effective market access for everyone without any restrictions on foreign capital." Looks like the global I-way could turn into a global boxing ring.

By Catherine Arnst in New York, with Linda Bernier in Brussels

To make sure the market develops fast, digital hopefuls are turning up the heat on governments

BMWs BOARDING: *For exports to flow costs must keep coming down*

GERMANY

WHY THE BIG BAD MARK DOESN'T FAZE GERMANY INC.

So far, exporters are shrugging off the soaring currency

A big budget deficit in Italy. A British government divided over Europe. A preelection wave of scandals in France. Little wonder that currency traders are fleeing out of lire, pounds, and francs. Since Jan. 1 alone, the German mark has risen sharply against major European currencies (chart) while also hitting a two-year high against the dollar. And the Bundesbank seems prepared to let it move even higher.

Europe could be heading into a new period of currency turmoil. Shock waves from the strong mark are already hitting Germany's neighbors hard. The lira fell to a record low against the mark on Feb. 22, for example, even though the Bank of Italy raised its discount rate by 0.75 points, to 8.25%. The Bundesbank poured fuel on the fire by saying it will increase interest rates if Germany's inflation—just 2.3% in January—starts rising again. That would send the mark even higher. Says Stuart Thomson, London-based economist with Nikko Europe PLC: "The Bundesbank is quite content to see the mark appreciate."

As economic and political woes mount in several European countries, the mark has become the currency safe haven of choice. Huge volumes of money are flowing into Germany even though its militant IG Metall union called a strike for higher wages against selected plants in Bavaria starting Feb. 24. The Bavarian strike could be the precursor to a nationwide action, but that is not stopping the money flow from the rest of Europe.

FRENCH SURPLUS. For their part, Germany's big companies are not yet fazed by the rising mark. A half a decade of cost-cutting is starting to pay off. Their rush to Asia, for example, provides handy insurance against foreign exchange turmoil. Electronics giant Siemens already does final assembly of semiconductors in Malaysia and has earmarked $3.4 billion for future investment in Asia. Says Siemens Executive Board member Jens Banaschek: "We do not base our strategy on short-term exchange rates."

THE GERMAN MARK'S SURGE

There are, of course, some pluses to a strong mark. It could help boost the exports of countries such as France, which is running its first trade surplus in years. Many analysts figure the stronger mark will help stiffen corporate resolve in Germany to resist high pay claims, such IG Metall's. And it should help German offset higher imported commodity prices which soared 23% last year.

The big risk is that a prolonged period with the mark excessively high could eventually squeeze German exporters everyone from luxury-car makers to dr companies. Take Geers Hörgeräte, *Mittelstand* manufacturer of medic products. It exports about 15% of its $ million in sales but can't raise pric abroad because of fierce competition. B so far, there are compensating effects the currency swings. Says owner Volk J. Geers: "We buy a lot of supplies the U.S., so that balances things out."

FOOTLOOSE CASH. German financial markets have yet to benefit from the mar rise. The German bond and equity markets are both flat. That's because the i flows are "hot money"—billions in foo loose cash held by big institutions such pension funds and parked in short-ter offshore accounts. These could vanish fast as they appeared, creating more tu bulence. But the Bundesbank is not wo ried. "If it's a temporary phenomenon says Thomas Mayer, chief economist Goldman, Sachs & Co. in Frankfurt, shouldn't be too disruptive."

The same is true of an IG Met strike. The 3 million-member labor uni covers huge swaths of German indust from auto manufacturing to electroni to steelmaking. A settlement near t 6% demand could fire up inflatio prompting the Bundesbank to raise k interest rates, such as the 4.5% discou rate. But the betting is that the fir deal will be in the 3%-t 4% range. Already Feb. 20, one north Ge man foundry, Poppe u Sohn in Kiel, bro ranks and signed house deal giving workers a 4% raise.

A nationwide settl ment of that size wo be catastrophic for Ge man industry. Last ye unit labor costs in man facturing tumbled mo than 6%, thanks large to a 10% productivity leap in sectors su as engineering. Even so, German comp nies will have to race harder this year cut costs and stay competitive. And t longer the mark stays strong, the hard and faster they will have to run.

By John Templeman, with Kar Lowry Miller, in Bonn

.Y. WONG OWNS 76 COMPANIES -AND HE'S STILL HUNGRY

e Singapore mogul is looking to be a major Asian player

ingapore's Y. Y. Wong is one of Asia's supersalesmen. In a region where state corporations or private l empires dominate the economy, the year-old chairman of Wywy Group sts one of the largest non-real es- conglomerates. Founded by Wong 19 years ago, his $900 million group 6 companies is a powerhouse in mar- ing and distribution.

Vong's ambitions extend far beyond native Singapore. He is pushing to ome a major regional player in tele- mmunications, family entertainment, finance. To do it, he is forming ategic alliances with multinationals, uding Motorola Inc. and Hong- g & Shanghai Banking Corp. At the e time, he is ping to West- ize Asia's erging mid- classes, by ding their wing appe- s for every- ng from cel- r phones to erican food. ng has "a at sense of ing," says rid A. Keller, ce-president Motorola a Pacific Ltd. Vong wants cash in on demand for communica- s infrastruc- . Five years , Wywy became a distributor for orola cellular phones and pagers. v, it is part of a consortium bidding become the second mobile phone and ing operator in Singapore. Besides orola, other partners include Japan's , AirTouch International, and Or- rd Parade Holdings, a Singapore perty group of which Wong is a rd member. Wong says that several erican and Japanese banks want to finance the $150 million deal.

Vywy is also linking up with Orchard Motorola to become a cellular digital rator in Pakistan. And Wong recent- ecame chairman of a new joint-ven- advisory firm with a subsidiary of Hongkong & Shanghai Banking to identify new opportunities.

Wong has been quick to cultivate businesses that cater to the millions of newly prosperous Asian families. With Sega Enterprises Inc., he will open in 1997 the first of three indoor high-tech theme parks with virtual-reality and interactive rides. Already, there are 50 Wywy Wonderspace Family Entertainment Centers, filled with video games and interactive simulators, around the region. Wong plans to invest an additional $200 million over the next two years for another 100 centers. "I want to create the McDonald's of entertainment," he says.

When it comes to restaurants, though, Wong has other American models in mind. In 1992, he bought the Asian franchise for Dallas-based Chili's, which serves American-style ribs, and intends to open 50 in 10 Asian countries over the next 5 years.

GLASS CEILING. Like many other Asian tycoons, Wong relied on connections to get his company started. At age 26, he became the first Singaporean director at Borneo Co., a British trading company. But he says his boss told him that a Chinese couldn't get promoted to the company's main board of directors. That prompted Wong to set out on his own. He got some aid from executives of Fuji Film, who had worked with Wong at Borneo. They helped him get a credit line of $178,000 from Bank of Tokyo, which allowed him to start Wywy as a distributor of copy machines.

As he built his empire, Wong suffered blows at home. His eldest son, Meng Ee, came down with a degenerative eye disease at 11 that blinded him. But Wong, a born-again charismatic Christian, says his faith helped him encourage his son, who will soon graduate from Stirling University in Scotland with a degree in Japanese and law.

One of Wong's toughest challenges has been building a knowledgeable—and loyal—staff. Most Singaporean graduates first try to land a job with the government. If they fail, they try for the banks, then the multinationals. "Homegrown companies get the bottom of the barrel," says Wong. Yet his attempts to build a solid workforce seem to be working. "The typical sales representative [at Wywy] really understands the products," says Motorola's Keller. "And there's no under-the-table dealing with anyone in the market."

As he goes for deal after deal, Wong may be overextending himself. He was recently named chairman of the executive committee at Singapore beverage group Yeo Hiap Seng in an effort to rescue a company rocked by poor investments and family squabbling. And despite all of his plans, Wong says Wywy won't need to raise cash through Singapore's equity markets. "I own 100% of the shares," he boasts. Wong says he can fund his expansion plans through strong cash flow and some bank loans. For now, Wong is betting he can succeed as a salesman without selling his company.

By Joyce Barnathan, with Ellen White, in Singapore

GAME TIME: *Wong wants to create the "McDonald's of entertainment"*

The World Of Y.Y. Wong

AGE: 50

HOME: Singapore

EDUCATION: Penn State, Harvard

TITLE: Founder, owner, and chairman of Wywy Group, a privately held conglomerate

BUSINESSES: High-tech chain stores, entertainment centers, American-style restaurants; annual sales, $900 million

PLANS: Expand into telecommunications, family entertainment, and finance

DATA: BUSINESS WEEK

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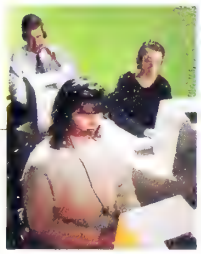

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'TED BY STANLEY REED

HINA: STRIFE AT THE TOP IAY SPARK A WAR ON CORRUPTION

Walking into the reception room at Shougang Corp.'s sprawling iron and steel plant, visitors are greeted by an enormous painting of Deng Xiaoping, the com- y's patron. China's paramount leader had been a com- e-in-arms with Shougang Chairman Zhou Guanwu in the)s. With Deng's blessing, Beijing-based Shougang grew n a smoke-spewing state steelmaker to an $11 billion tinational conglomerate that includes a bank, five compa- listed on the Hong Kong stock exchange, and a massive -ore mine in Peru. None other than Deng's second son, ıg Zhifang, is the head of Shougang's Hong Kong-based estate arm.

ut with the patriarch now his deathbed, being his old dy may be a liability. The nese authorities announced Feb. 17 that they had arrest- Zhou's son, Zhou Beifang, 41. natty, cigar-smoking chief hougang's Hong Kong hold- companies is being investi- d for "serious economic ies." A day earlier, the elder u, 77, was sacked as ugang's chairman. News of downfall of such well-con- ed men rocked the China ness community. "With such erful people involved, the sion had to go all the way to Politburo," says a mainland nomist.

xecutives are worried that moves against Shougang d signal the beginnings of a ı-level anticorruption drive to the struggle for power he post-Deng era. If Chi- leaders do go down this l, the results could be very ructive. That's because self- ling and conflicts of interest e been widespread during the Deng era as many rela- s and cronies of the Communist party elite used their nections to prosper in private business. Top officials t know that starting such a campaign could get out of trol. But with an important National People's Congress to convene in March in Beijing, such contenders for er as President Jiang Zemin and Premier Li Peng may be tempted to attack such practices to demonstrate r leadership and damage rivals.

usiness leaders in Hong Kong and China are taking note. y say they are hewing to the law and keeping their ls down. They don't want to be closely identified with any icular leader or faction. "The only way to protect yourself obey the law, not rely on *guanxi*," or connections, says a Shanghai businessman. He reports receiving phone calls from Hong Kong associates urging him to watch his back.

WHERE THERE'S SMOKE

The ouster of Shougang's chairman, and the arrest of his son, suggest the power struggle in Beijing is raging unprecedentedly

While the authorities have released few details of the charges against Shougang, the company's operations have long been regarded with skepticism by securities analysts and Chinese economists. Even though the conglomerate claimed it had earned some $700 million last year, brokers were wary of its financial reports. Analysts say that the authorities may suspect that the wheeling-dealing Shougang was a vehicle for profiteering by underpaying for mainland factories. It is also widely believed to have overpaid for its Peruvian mine in 1993 The company did not respond to requests for comment.

PRINCELINGS. Just before the moves on Shougang, the *Legal Daily* reported that up to $95 billion in state assets were looted in the past decade. State managers are believed to have profited by transferring units to overseas companies at below-market prices and by using privatization to buy up their operations on the cheap.

Worries about other companies coming under scrutiny rocked the Hong Kong stock exchange as investors dumped so-called red-chip companies that employ the children of senior mainland leaders. Also hit were the shares of Hong Kong multibillionaire Li Ka-shing's Cheung Kong Holdings Ltd., which has extensive dealings with Shougang and Deng Zhifang. Prices later recovered.

If the top leaders do embark on an anticorruption drive, doing business in China could become much more difficult. Western companies that have signed up the children of senior leaders could find these people to be problems, not assets. The so-called princelings, children of Deng and other top officials, could be especially vulnerable. "They are powerful only because their parents are still powerful," says an executive at a mainland hotel company in Guangdong province. "Once they pass away, they will lose everything."

So far, the top leaders are trying to squelch speculation that political infighting may escalate into a broad campaign against business. Beijing quickly sought to assure investors there will be no major changes in Shougang's operations. The major rivals for power have also been making big shows of unity to try to calm everyone down. For instance, Jiang, Li, and fellow Politburo members recently gathered at the Great Hall of the People for a holiday celebration. Jiang led them all in a rendition of *Sing to the Motherland*, the old revolutionary standard. One wonders how long they will be singing the same tune once the great choirmaster is gone.

By Pete Engardio in Hong Kong, with Joyce Barnathan in Shanghai

INVENTIONS

NASA'S TINY CAMERA HAS A WIDE-ANGLE FUTURE

It may still be in the lab, but the latest advance in capturing images has very bright prospects, indeed

Get ready for the camera-on-a-chip. Since the 1970s, camera makers have dreamed of a one-chip camera containing all the components necessary to take a snapshot or make a movie. With all the smarts on one chip instead of several, designers figure they could make a camera small and cheap enough to open vast new markets for everything from dolls that "see" to rear-bumper cameras that would help drivers back up.

Such devices are impractical with today's standard electronic image sensor. It's called a CCD, for charge-coupled device, and it's at the heart of every fax machine and camcorder. Japanese powerhouses such as Sony, Matsushita, and NEC churn out millions a year. CCDs offer good image quality. But they are costly, power-hungry, and—with the accessory chips they require—bulky.

TEAMWORK. Now, the one-chip dream appears on the verge of being fulfilled, thanks to three inventors from NASA's Jet Propulsion Laboratory at California Institute of Technology in Pasadena. The leader is Eric R. Fossum, 37, who was recruited in 1990 from an associate professorship at Columbia University to beef up JPL's image-sensing effort. His co-inventors are a former student now at AT&T Corp., Sunetra K. Mendis, 30, and Fossum's wife, Sabrina E. Kemeny, 37, who took maternity leave from JPL in November and started a company—Photobit—to exploit the concept. Photobit is designing custom sensors based on the invention, while Fossum continues to lead a team of eight at JPL focused on advancing the technology.

Their device, a type of "active pixel sensor," has more in common with a computer chip than with a conventional CCD. Since it's made on standard semiconductor production lines, it taps into enormous economies of scale and should cost much less than CCDs. One chip can incorporate all manner of electronic controls that are usually on multiple chips, from timing circuits to zoom and anti-jitter controls. By consolidating many functions and reading images in a more efficient way, it requires one-hundredth the power of a CCD-based system. And the chip does its own conversion from analog to digital for output on computer monitors or disk storage. About all it needs is a power source and a lens to focus light on it.

FOSSUM: *The project leader and his co-inventors will share in any royalties*

Fossum says several U.S. companies are negotiating with JPL on licensing the technology, but he isn't naming names. The chip offers fresh opportunities in imaging to companies that have been stymied by the high barriers to entering CCD production. "American industry is definitely interested," says Carl A. Kukkonen, director of the Center for Space Microelectronics Techno gy at JPL. "For them, it's a chance leapfrog the Japanese."

AT&T, for one, would like to take first jump. Long interested in low-c cameras for video telephones, it has ready collaborated with JPL to build t prototype arrays. A CCD costs a mod $20, but other components bring t system cost to $140, says Bryan D. A land, head of the VLSI Systems Resea Dept. at AT&T Bell Laboratories Holmdel, N.J. By putting everyth on one chip, says Ackland, "what we trying to do is build the entire cam subsystem for $20." At that price, ev personal computer could come wit built-in videoconference feature, just many multimedia PCs come outfit with speakerphones today.

Bell Labs' interest in active pixel s sors is especially impressive beca

ll Labs invented the CCD 25 years o. Researchers knew then that they uld cover a chip with light-sensitive eas called pixels, or picture elements. ich pixel captures photons and turns em into electrons in proportion to the ightness of the light. What was need- was a way to retrieve signals from e pixels. Running a wire to each pix- would have covered the chip with tal, making it opaque. So Bell Labs me up with a clever way of using ctrodes with voltage differentials to ag the electrons from one pixel to the xt, bucket-brigade style, until the en- e row was at the edge of the chip, ere the buckets were amplified and d out as a voltage level.

Those CCD chips, though, needed rapure silicon; like an old string of ristmas tree lights, a single defect uld darken an entire row of pixels. ey consumed lots of power. And they quired a custom-manufacturing pro- s. The Japanese mastered the process l virtually took over the industry en they put CCDs into mass produc- n for camcorders.

PIXEL'S PROGRESS. Meanwhile, JPL— essed by NASA to come up with small neras for satellites—was struggling figure out how to cram control cir- try into the alien environment of chips. "At the end of 1992, we sim- turned the problem around," says ssum. They stopped using the CCD a platform and instead dropped thou- ds of micro-CCDs onto a chip that s more like a computer circuit. With- six months, they had their first work- chips.

Advances in chipmaking allowed JPL wire each pixel—the idea Bell Labs had long before rejected. Today chip- makers can etch metal lines less than a micron wide, a tenth of the thickness of 25 years ago, creating all kinds of spare room on the chip. "We asked ourselves, 'what other things can we put in the pixel?'" Fossum says. They put an am- plifier in each one, along with circuits that allowed each pixel to be read out individually for features such as pan- ning and zooming. Now they're inte- grating other functions, such as timing, control, and analog-to-digital conversion.

Fossum's team hopes to build a com- plete digital video camera the size of a plastic gambling die (see mock-up in photo). And it also has a $1.5 million contract from the Pentagon's Advanced Research Projects Agency to build a wireless camera, complete with battery and antenna, all in a one-inch cube. You send it a radio pulse to take a picture, and the camera beams the picture back.

The JPL team isn't alone. A company in Edinburgh, Scotland, VLSI Vision Ltd., has already come up with a chip that in- corporates all of the digital circuitry. But without amplifiers in each pixel, that chip's resolution is only good enough for sorting parts on factory lines or for home security systems. Closer to JPL's approach is the work of NHK, Japan's national broadcasting company. Fumihiko Ando, a senior research engi- neer at NHK Science & Technical Re- search Laboratories, claims that NHK's "Amplified MOS Imager" has many of the same advantages of JPL's, including speed, but is more workable because it uses smaller pixels. He has already built a prototype that reels in 360 frames a second—enough to capture every seam stitch on an incoming fastball or the lo- comotion of a water strider bug.

Researchers at Eastman Kodak Co., the biggest producer of CCDs in the U. S., are also skeptical of JPL's ap- proach, questioning whether active pix- el sensors can deliver sufficient quality.

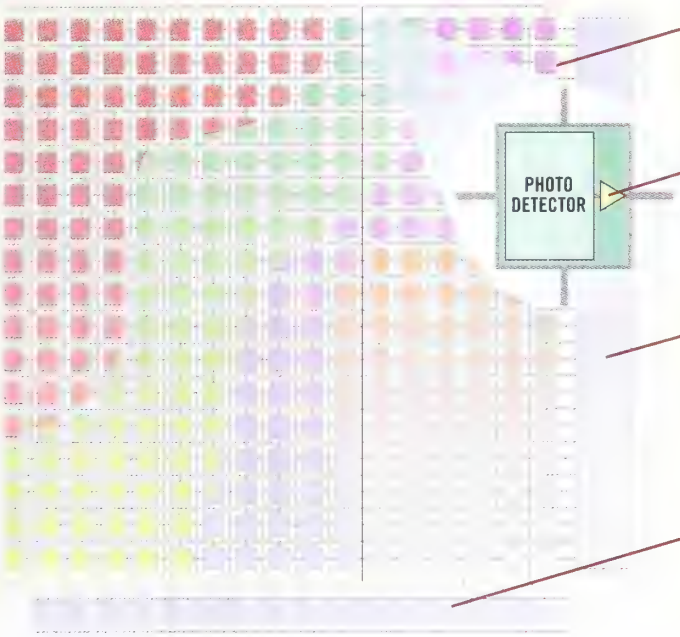
To be sure, JPL's active pixel sensor isn't yet ready to replace conventional video cameras or still digital cameras in fields where image quality is essen- tial—its images are still a bit "noisier" and can't match the resolution of those produced by a CCD camera. NHK's Ando figures that he's three to five years away from matching the CCD in resolu- tion. Fossum says that because JPL's pixels are bigger than NHK's, he's more like five years away. Meanwhile, JPL is aiming the technology at new markets where small size and low power-con- sumption are critical, such as toys, port- able video phones, video baby monitors, and document imaging. Even if the ac- tive pixel sensor got no further than that, it would be a coup for a three- some who saw cameras in a different light.

By Larry Armstrong in Pasadena, Calif., with Larry Holyoke in Tokyo

Since the device can be manufactured on standard semiconductor production lines, it will allow enormous economies of scale

A NEW KIND OF ELECTRONIC EYE

NASA's Jet Propulsion Laboratory is developing an "active pixel sensor" for smaller, cheaper cameras. The sensor rivals conventional charge-coupled devices, or CCDs. Here's how it works:



1 Light falls onto tiny **PIXELS** and is converted into electrons stored in wells called capacitors.

2 Each pixel has its own **AMPLIFIER**. In contrast, CCDs use a lot of power to drag electrons in a bucket brigade that ends at a single amplifier.

3 The amplifiers will be switched on and off by **TIMING AND CONTROL CIRCUITRY** that's right on the chip. In ordinary CCDs, those functions are on other chips.

4 Voltages from the pixels go through an **ANALOG-TO-DIGITAL CONVERTER**. CCDs require separate converter chips.

DATA JET PROPULSION LABORATORY

Everything A CEO Should Know About Data Storage:

1. In 1994, 50% of your computer hardware budget was spent on it. 2. By the end of the decade, you'll spend 70% on it.

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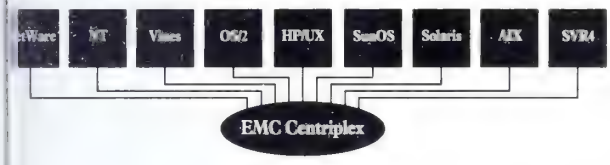
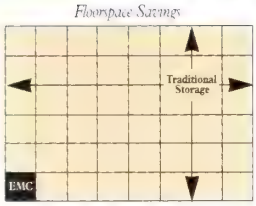
Everything An IS Manager Should Know (Now That The CEO Knows The Facts On The Left):

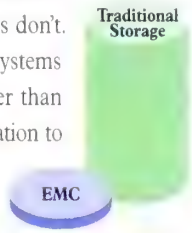
. There is an avalanche of information now running through your ompany. It is growing. 2. The more information your company reates, the more information your company needs. 3. It's now ough er than ever to distribute, manage, store and protect the tegrity of your information. 4. Successful companies are reorganizing emselves around the competitive use of information. 5. Chances are, our competition is using storage to gain competitive advantages. lot just to save money but to make money and to increase market



are. 6. For instance, by storing their information in central locations, ompanies are moving, managing and controlling their information ore efficiently than before, and getting their products to market faster. The Gartner Group reports that roughly half of machine-readable ata now reside on desktops. How well your company uses, leverages and protects its open client/server-based information will determine its performance. 8. EMC is the leader in data storage and retrieval systems. We focus all of our resources on this one area, getting the best technologies to you first, giving you an edge no one else has. 9. With the highest performance, capacity and availability, our systems will increase your profits, increase your market share, make your customers happier and ensure the integrity of your information. 10. EMC systems maximize the performance and lue of your CPUs, your network and your software e no other storage available, extending the useful life a CPU by several years. 11. We package best-of-breed che, disk and memory technologies in a way that has volutionized DASD-helping you manage information tter while drastically reducing floor space requirements



and environmental costs. 12. Our systems' quicker response times improve customer service, transaction processing and overall employee efficiency. 13. Only EMC is able to offer the best storage technologies first because of our MOSAIC: 2000 architecture. This allows us to get the latest storage solutions to you faster, so your information is always being accessed faster and protected better than your competitors' information. 14. Since we're always first to market, our customers get competitive advantages their competitors don't. 15. Without compatibility problems. 16. Our systems get information into employees' hands faster than ever before, allowing them to use that information to make your company more successful. 17. Our systems not only provide faster access, they ensure that the information is secure, and always available. 18. Case in point: Symmetrix, the world's fastest and most highly available mainframe storage system. 19. Harmonix, a midrange storage system that makes an AS/400 scream. 20. And Centriplex, the first mainframe class, centralized storage designed specifically for open environments. 21. Our customers are experts at getting more value out of their mainframe, midrange and client/server storage systems. Because an EMC storage system isn't just passive storage. 22. It's part of a dynamic strategy for growth. 23. It isn't a commodity. 24. It's a value center. 25. It's a competitive weapon. 26. It's why EMC is a highly profitable Fortune 500 company and the world leader in storage solutions, producing only one thing: Storage. 27. Call 1-800-424-EMC2 ext. 136 and learn how EMC can help you use information to improve your company's performance. 28. As well as your own.



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EDITED BY NEIL GROSS

BUBBLES THAT BEAT THE HEAT

LIQUID THAT BUBBLES AT A rolling boil may not look refreshing. But someday, those bubbles could be harnessed to cool off hot X-ray devices, fusion-reactor components, and even rocket nozzles. With support from 3M and the Navy, Purdue University mechanical engineering professor Issam Mudawar

created a box-like device that dissipates heat by forcing liquid through tiny channels the size of hypodermic needles. Attached to any hot surface, the box absorbs heat, transfers it to bubbles that form on the channel walls (shown on TV above), and flushes it away. Mudawar has already tested his devices as heat sinks for semiconductor chips, and he's studying military applications.

CURING SICK BUILDINGS WITHOUT SURGERY

AMERICA IS SUFFERING FROM AN EPIDEMIC OF SICK BUILDINGS. Poor ventilation and a buildup of bacteria in heating and air-conditioning passages can lead to respiratory and other illnesses. Until now, the only surefire remedy was to rip out the old systems and install new ones—an expensive proposition that caused many building owners to balk.

Yogi D. Goswami, a University of Florida engineering professor, says he has developed a stunningly simple, inexpensive solution: a system that forces air in the ventilation system through a filter coated with titanium dioxide—a common chemical powder used in toothpaste—then zaps it with ultraviolet light. Together, the two steps break down volatile organic compounds (VOCs) that build up in the air while killing bacteria that lurk in the ducts. The system can be installed easily in existing ducts or placed in new construction. Goswami has applied for patents and hopes to find a manufacturing partner.

HOW TO DOPE OUT MOLECULES ON THE DESKTOP

DESIGNING DRUGS TO ACHIEVE maximum effectiveness requires a detailed understanding of their molecular structure. But determining the structure of molecules with more than 400 atoms used to be impossible without a chemist's help, even on supercomputers. In 1992, researchers in Buffalo, N.Y., devised a method called SnB, or "shake and bake," which used a supercomputer to dope out the structure of a 414-atom molecule. Now, Russ Miller, a computer scientist at the State University of New York at Buffalo, has optimized the program to run on computer workstations costing about $4,000.

The software figures out molecular structures using data generated by bombarding a crystal of the material with X-rays and analyzing the reflections. First, the program plots a random configuration of atoms and moves them around until they fall into a configuration that more closely matches the reflection data. Then it repeats the process from a new random point, eventually selecting the best match. Molecular Structure Corp. in Houston has built the program into its existing molecular-design software.

INNOVATIONS

■ WASTEWATER FROM FIS farms can pollute stream But hydroponic strawberrie (above) thrive on it. The A riculture Dept. says nutrien in the water helped boos productivity 10 times.

■ BY SANDWICHING THI layers of carbon nitride ar titanium nitride, Northwes ern University researche created industrial coating that are nearly as hard as i dustrial diamonds. And u like diamonds, which requi temperatures up to 900C, t new composite can be pr duced at room temperature

■ CRAY RESEARCH INC newest supercomputer tea along at 60 billion calcul tions per second. That's n why everyone is talki about it, however. Ingenio new connectors let Cr eliminate 36 miles of wiri among boards and oth components, slashing man facturing costs. Even s the world's first almost wi less supercomputer—call the T90—costs $2.5 milli and up.

LURING FACTORIES TO LANDFILLS

NOBODY WANTS A GARBAGE dump in their backyard. But when it comes to luring industrial parks, communities compete aggressively with tax breaks. Playing on that, scientists at Stevens Institute of Technology are tackling the problem of solid waste by turning landfills into a new breed of industrial park. Manufacturers who locate there would get free energy and free raw materials in exchange for converting, say, discarded jars into glass fibers. These would be used to reinforce plastic composites made from scrap shampoo and soda bottles.

The idea could solve a basic economic problem: If resources mined from a landfill have to be transported to remote factories and reprocessed using commercial power, "then recycling just can't compete," says George P. Korfiatis, director of Stevens Institute's Environmental Engineering Center. Better to do it on the spot, using methane from decaying garbage for power. Stevens will build a $2.3 million pilot recycling center next to a landfill in New Jersey. It will also use molecular engineering to create new polymers that make it easier to manage the total life cycle of plastic products—currently more than one-third of all solid waste.

Imagine

AND

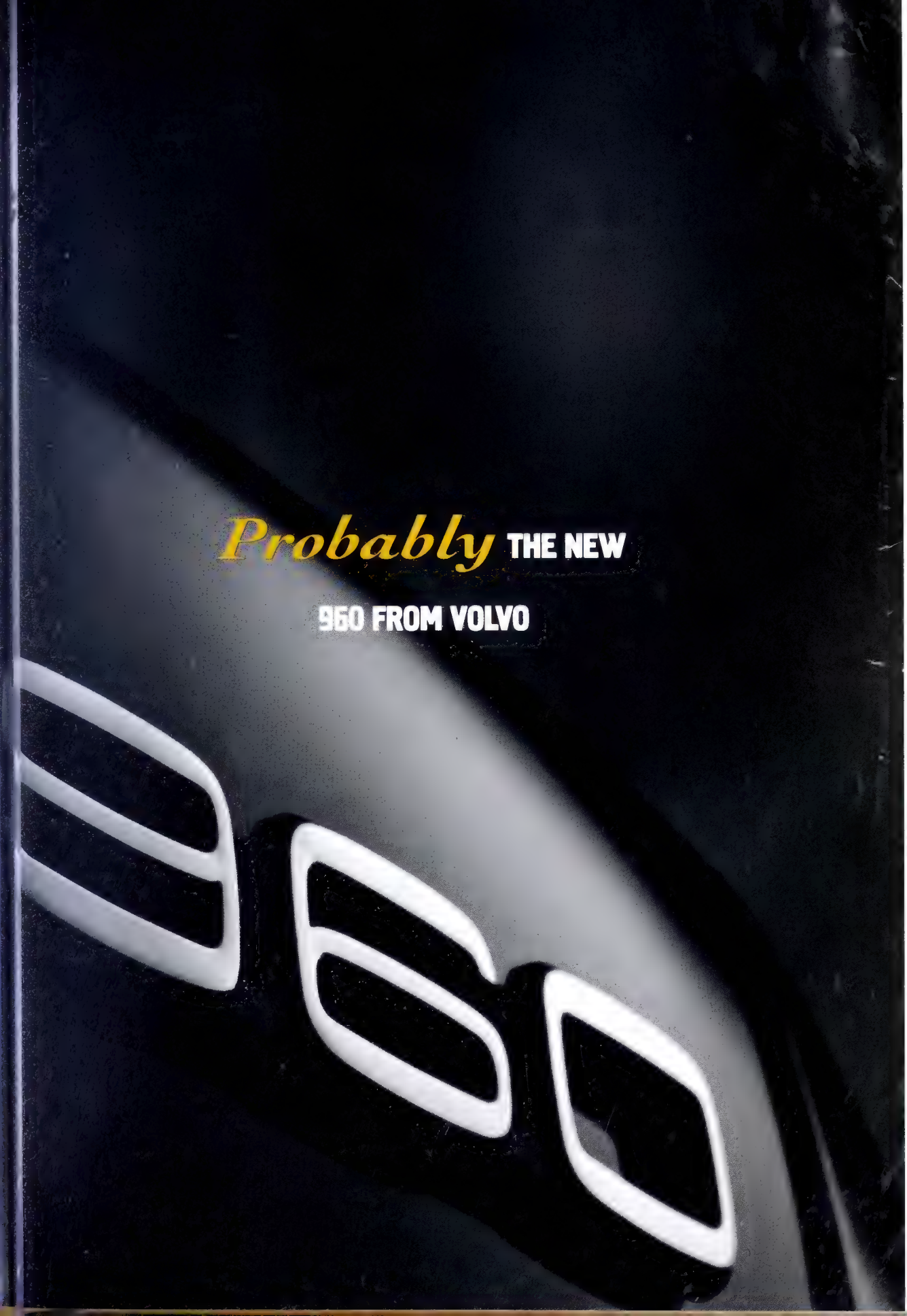
DECIDE

dinner.

TALKING ABOUT REALITY

WHAT IF

happen?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Drive safely.

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IARITIES

HE GOP'S BLIND FAITH N CHARITY

e private sector just won't be able to fill the gap left by cuts in social spending

AK HOUSE? *Less funds, more demand for Georgia Baptist Children's home*

he Republican social vision for America leans heavily on charities. As Washington chops away at the welfare state, GOP leaders see small, local groups rising up to fill the gap left by government. ivate charities are more effective, y are less expensive, and they are ter for the people they help," Newt grich (R-Ga.) declared in his maiden ech as Speaker of the House.

'rom the playground of a children's e outside Atlanta, Ken Dobbs' vision he future is much grimmer. GOP is to cap foster-care spending could rply cut the government funds that prise 15% of the $7 mil- budget of Georgia Bap- Children's Homes, which bs runs. And proposed ts on welfare programs— h as plans to bar cash ments to first-time teen- mothers—could lead to a wave of needy children Georgia Baptist. "The gov- ment should not shirk its onsibilities," Dobbs says. ir funding from private sources is not sufficient to carry the cost of our programs."

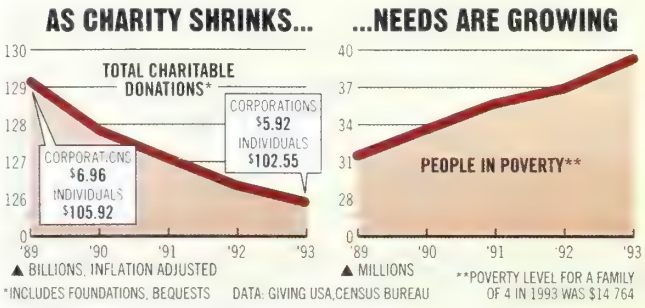
Which vision is more likely to prevail? So far, the charities are having a hard time denting the GOP's almost mystical belief in the power of charity to replace government. Republicans argue that an improving economy and strong incentives for the poor to become independent will fix much of the welfare problem. And charities, perhaps aided by new tax incentives for giving, will grow enough to take care of the rest. "Cut back the government's role, give true charities room to operate, and they'll grow," says Marvin Olasky, a historian and Gingrich brain truster.

But as they brace for the second major cutback in social spending in 15 years, charities point to the failure of a similar trickle-down approach under Reagan. Even under the best scenario—unprecedented success in weaning the poor from welfare and a surge in private giving—philanthropy can't begin to offset the proposed cuts. "We cannot begin to do it all," declares a Feb. 7 statement to Congress signed by 115 charities.

DOUBLE HIT. Republicans hope to amass five-year welfare savings of $60 billion to $80 billion. But that's far more than the $23.3 billion social-services agencies raised in 1993. Private contributions to all charities—including churches, museums, symphonies, and colleges—in 1993 totaled $126.22 billion but have lagged behind inflation for the past five years (charts). The annual median amount given by U.S. households, under pressure from recession and flat wages, fell from $335 in 1989 to $270 in 1993.

What's more, health and human services charities fear a double hit. Under Newtonian social policy, they will not only be expected to provide services once performed by the government, but they also will lose existing government funding, which typically represents 30% of their budgets. To begin to cover the proposed cuts in Aid to Families with Dependent Children, food stamps, and Supplemental Security Income and recoup their lost funds, they'd have to boost their fund-raising by double-digit rates. "We can catch people who slip through the safety net," says Gordon A. Raley, director of the National Assembly, an umbrella group for social-welfare charities. "But I doubt this country is ready to replace the whole net with a system of soup kitchens."

Corporate America isn't likely to ride to the rescue. Corporate giving has been flat, at around $6 billion, since 1989, and few executives project a major hike. Enjoying



rising profits, 3M Co. this year budgeted its first increase since 1992 in its $45 million—$15 million in cash and the rest in goods—annual giving program. But the hike is only 5%. "It's unrealistic to assume the corporate sector, or the private sector in general, can make up for government grants," says Richard Hanson, 3M's director of community affairs.

Republican leaders offer two responses to charities' warnings. Authors of the GOP welfare-reform bill claim it can save money without cutting services. States, they reason, would run many programs with less overhead. Benefit cuts would push welfare recipients to get jobs. And barring teen moms from collecting cash—turning them toward institutional care instead—would in theory deter many pregnancies, keeping young women off welfare. "Only a very small fraction of welfare moms would lose income, and that fraction would be shrinking," argues Representative James M. Talent (R-Mo.), co-author of the GOP's main welfare bill.

LEAPS OF FAITH. More radical Republicans don't deny the pain of cuts—they embrace it. Olasky, a senior fellow at the Progress & Freedom Foundation, which enjoys close ties to Gingrich, wants to push the poor toward small social agencies, usually church-based, that minister spiritually and materially. The moral strictures these groups attach to their aid—work hard, live a clean life—lift people out of dependency, Olasky says, while government and nonprofit bureaucracies offer help without demanding change. "We need to phase out the welfare system while upgrading the new approach," he says.

To help the process, Republicans are floating tax incentives for giving. Representative Mark E. Souder (Ind.) would let taxpayers deduct 110% of their charitable gifts, at a cost he puts at $8 billion a year. Representatives Joe Knollenberg (Mich.) and Jim Kolbe (Ariz.) unveiled a plan to let taxpayers give 10% of their federal tax payments, up to $2,500, to a poverty-fighting charity. Grants to the states would be cut by an equal amount. Says Knollenberg: "We'd empower the taxpayer to get directly involved in fighting poverty and welfare."

Would taxpayers rise to that challenge? Nonprofits say they'd be the last to deny the generosity of Americans. But they're afraid to tie immediate, tangible budget cuts to hopes for a future surge in giving. Republican social policy in the 1990s, like Republican tax-cutting policy in the 1980s, requires a leap of faith over a mountain of experience. Charities like Georgia Baptist aren't ready to jump.

By Mike McNamee in Washington, with David Greising in Palmetto, Ga., and Manali Shah in Minneapolis

STRATEGIES

JUST GET IT TO THE STORES ON TIME

VF's clothes aren't trendy, but its delivery system is a wow

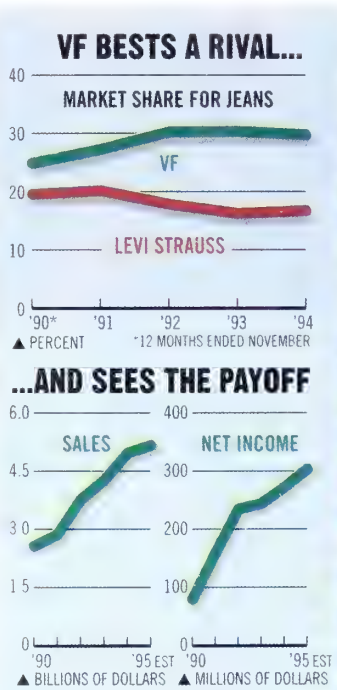
When Sara Lee Corp. introduced its new Wonderbra in the U.S. in New York last May, after the trendy cleavage-builder took the British market by storm, managers at rival VF Corp. watched closely. Only after American shoppers began snapping up the new bra did VF offer up its own It Must Be Magic version.

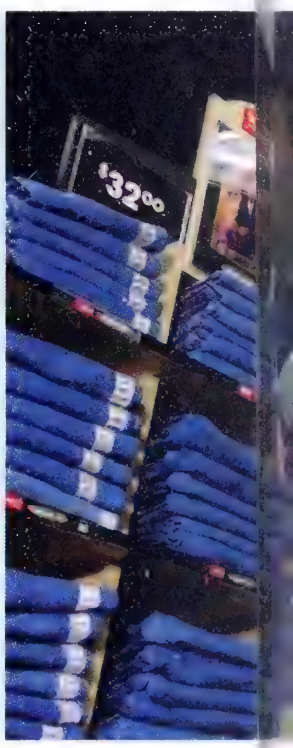
But once VF decided to move, it moved. Using state-of-the-art distribution, it surged ahead with a nationwide rollout five months ahead of Sara Lee, which is itself no slouch when it comes to marketing. Now, VF's $23 knockoff is holding its own against its rival's $26 brand-name brassiere.

"LESS RISK." Letting others take the lead may be outré at Paris salons, but it's a winning style at VF. By sticking mostly to timeless apparel staples, finely honing its "second-to-the-market" approach, and bringing high technology to the nitty-gritty details of distribution, VF, based in Wyomissing, Pa., has avoided the financial gyrations that beset many clothing makers. Says VF CEO Lawrence R. Pugh: "Clearly, there is less risk."

Clearly, there's also more reward. Since 1991, VF has boosted income and sales at a compound annual growth rate of nearly 20%, a record few big U.S. companies can match. For 1994, net earnings hit $274.5 million, up 11.4% on sales of $4.97 billion, a 15% rise. Double-digit gains are expected again this year.

As pragmatic and staid as VF's product line, Pugh would rather make money than fashion news. Roughly 51% of VF's sales come from its workaday jeans such as Lee and Wrangler, and an additional 15% from Vanity Fair women's undergarments. Pugh's brands are the bread-and-butter lines for many retailers. "They give the customer what the customer wants," says Tom Cole, logistics chief at Federated Department Stores Inc.



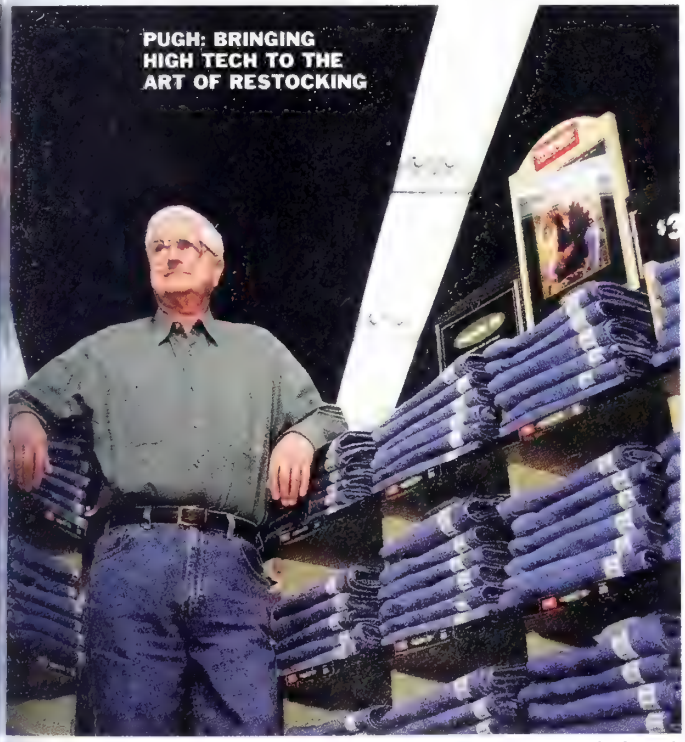


Sounds simple. But making sure customers find what they're looking for has become a high-tech battleground. VF has emerged as a leader in computerized "market-response systems" that keep close tabs on what shoppers buy—allowing VF to rapidly restock stores with popular togs. VF's shelf-stocking strength is helping it beat the pants off of rivals such as $6 billion-a-year Levi Strauss & Co. While it can take up to a month to get in new Levi's, says Cole, VF's jeans generally arrive within three days of an order. "VF is in the vanguard in retailer-vendor partnerships," he says.

It wasn't always so. After Pugh be-
me chairman in 1983, he led VF
rough a series of aggressive acquisi-
ons. That helped double sales, to $2.5
llion in 1989, but earnings growth
gged—and a failed bid to transform
ee into a more trendy brand forced a
7 million charge in 1990. Yet even as
ee stumbled, sales of Wrangler jeans
ared, thanks to an experimental mar-
t-response system VF had begun to
velop in 1989. Pugh realized that VF
ould do better sticking to basics and
reading the system to its other lines.

VF began by hooking its own com-
iters up with those of retailers such as
'al-Mart and J.C. Penney. Since VF
pplies tens of thousands of retail out-
ts with hundreds of styles, the task is
ind-numbing. VF's computer nerve cen-
r looks more like a Star Trek set than
e heart of a fashion company; in a
idgelike control room, technicians
ack data constantly sweeping across 40
rminals running floor to ceiling.

How does the system work? Consider



PUGH: BRINGING HIGH TECH TO THE ART OF RESTOCKING

Wal-Mart Stores Inc., which moves mil-
ions of Wrangler jeans each year
hrough 2,100 outlets. Every night, Wal-
Mart sends sales data collected on its
egister scanners straight to VF, which
hen restocks automatically. So if a Wal-
Mart customer buys a pair of Wran-
glers on Tuesday morning, by that eve-
ning, records of the sale arrive in VF's
central computer. If VF has a replace-
ment pair in stock, it's shipped directly
to the store the next day—and by
Thursday, Wal-Mart's shelf is replen-
ished. If not, VF's computers automati-
cally order up a replacement—and a
new pair of jeans is shipped within a
week. That's a big change: Restocking
used to take VF up to three months.
The system "has enabled us to get mer-
chandise into the stores in a more time-
ly manner, closer to buying decisions
by the customer," says Ken Eaton, Wal-
Mart's merchandise manager for men's
and boys' goods.

To be sure, shortening restocking
times is a mantra for many retailers
and suppliers these days. But Levi's
only recently set plans to cut delivery
time by the end of 1996 to within 72
hours of an order. "We don't even classi-
fy Levi's as so-called quick-response,"
says John Freudenthal, executive vice-
president of the 59-store Milwaukee-
based Carson Pirie Scott & Co.

Speed isn't the only advantage. By
taking the guesswork out of reorder-
ing, the system ensures that retailers
replenish only styles that sell. That has
helped Belk Store Services Inc. "We
get more sales out of the same amount
of inventory, because we now have in
stock more of the sizes the customer
wants," says Robert Wildrick, merchan-
dising chief for the 280-store chain.
Fewer unwanted goods also mean fewer
clearance sales.

With about half of VF's U.S. jeans
business now handled through the
quick-response system, Pugh credits it
with solidifying VF's position as the
biggest player in the $7.9 billion U.S.
jeans market. VF's share, measured in
unit sales, has moved from just under
26% in 1989 to 30% in the 12 months
ended last November, according to mar-
ket researchers NPD Group Inc. in Port
Washington, N.Y. By contrast, even
with its powerhouse brand name, Levi's
share has slipped from 21% to just be-
low 17%, in part, say retailers, because
of its slowness in replenishing stock. A
Levi Strauss spokesman says Levi's con-
tinues to post record sales; industry in-
siders say it is sacrificing volume for
price as it concentrates on upscale re-
tailers. Still, Levi's plans to spend heav-
ily upgrading its delivery system.

LOSING AN EDGE? Indeed, quick-re-
sponse replenishment systems are pro-
liferating among manufacturers. Large
retailers are also developing systems.
Wal-Mart has one on the drawing board,
while Penney has inaugurated its own
in-house restocking network. That
means Penney will be able to restock
Levi's—or its own Arizona label—just
as quickly, cutting VF's edge.

Pugh vows to keep ahead of the pack.
He says he's working with retailers to
move beyond replenishment. By sifting
through its sales database, VF's experi-
mental Trendsetter system will track
groups of goods—say, jeans and shirts of
various sizes, styles, and colors—to find
sales patterns that can help retailers forecast
ideal supply levels. But as others catch
up, it's unclear if VF can hold its lead.

And automated re-
plenishment does have
limits. Although it
works well with time-
less staples, it's of lit-
tle use for fast-moving
styles. That may ex-
plain why VF hasn't
done as well when
dabbled on the fron-
tiers of fashion. Its
pricey Girbaud jeans,
for example, has mis-
fired so often that VF
wrote off $16 million
in excess inventory in
1993. New manage-
ment spent 1994 re-
building the brand. There may be limits
with VF's other lines: Only 25% of ship-
ments of Vanity Fair's constantly chang-
ing line of undergarments uses the re-
plenishment system and 10% to 15% at
VF's Healthtex Inc. children's line.

Pugh knows he can't take all the risk
out of the clothing business. No amount
of computer savvy can tell if a new
cleavage-enhancing swimsuit from VF's
Jantzen Inc. unit—a spinoff from its
Magic push-up bra—will sell. But the
way VF uses its technology is certainly
an uplifting notion in the fashion trade.

By Joseph Weber in Wyomissing, Pa.

VF's reordering system is so precise that if a Wal-Mart sells a pair of jeans on Tuesday, a replacement pair is back on the shelf by Thursday

DAVID FIELDS

STRATEGIES

WAS SPECTRAVISION TOO FARSIGHTED?

Its high-tech hotel-movie system is costly and complex

Back in 1992, top executives at SpectraVision Inc. peered into the future and didn't like what they saw. Although the company, then known as SPI Holding Inc., had pioneered pay-per-view movies in hotel rooms, it was saddled with aging video technology in a slow-growth market.

But rather than fight fierce price wars, then-Chief Executive Albert D. Jerome decided to leapfrog rivals with a sophisticated satellite-based system. With partner Electronic Data Systems Corp. providing digital technology, Jerome banked on high-quality pictures and more programming flexibility to jumpstart sales and earnings. But the company, based in Richardson, Tex., and controlled by billionaire Marvin Davis, underestimated the difficulties of building its new system. And now, instead of being toasted as a technology leader, SpectraVision is struggling to survive. Analyst Sally Overstreet of Jefferies & Co. estimates that it lost $75 million last year on sales of $145 million, after losing $46 million in 1993. With $18 million in interest due in December, analysts say SpectraVision will have to restructure its $500 million debt. Its Class B stock has plunged to ¾ from a high of 14¾ in late 1993. Concedes Gary G. Weik, named CEO after Jerome's September ouster: "This is a company that tried to do too much to fast."

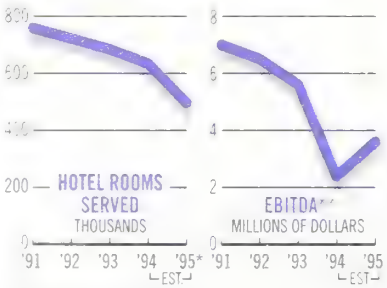
ON THE BEAM: *SpectraVision customers in Toronto*

SpectraVision has been down this road before. The heavy debt—left by successive leveraged buyouts involving billionaire Robert M. Bass in 1987 and Davis in 1989—sent it into bankruptcy briefly in 1992. Although Davis then cut his stock holdings from 100% to 32%, he controls about 74% of voting rights. Davis, who remains a director, expresses confidence in current management.

SpectraVision's latest downturn began when installing the satellite system proved far tougher than foreseen. Initially, SpectraVision and EDS had trouble getting the new hardware and software to work together. Other technical snafus added to downtime. The result: Revenues shrank as costs soared.

Still, the 48-year-old Weik, the former head of Houston-based cable operator KBLCOM Inc., remains steadfast. "We have the right technology," he insists. "We have the right strategy." SpectraVision has now linked about 1,300 hotels in the U.S. and Canada, with some 400,000 rooms, to the satellite network and will complete installation in 300 more hotels this year, at a total cost of more than $2 million. It has also begun rolling out the next phase, a digital video-on-demand system. "We're probably 18 months ahead of any other competitive product," boasts J. Keane Taylor, president of the visual communications group at EDS.

SPECTRAVISION'S PICTURE STAYS BLURRY



*AFTER SALE OF FOREIGN ASSETS
**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION, AND AMORTIZATION

DATA: COMPANY REPORTS, DUFF & PHELPS

Perhaps, but SpectraVision has little to show for its efforts. By replacing its old system, in which every hotel had videoplayers, with the ability to receive programming by satellite, it claims it has cut distribution and maintenance costs while offering greater variety. Yet hotels appear unimpressed. Since 1991 SpectraVision's installed base has fallen by 16%, to about 634,000 rooms. In early 1993, for example, it lost a contract with Hilton Hotels Corp. to provide movies to 43 hotels. Hilton opted for rival On Command Video Corp. On Command's better deal—offering Hilton free TVs and a greater share of movie revenues—was the main reason for the switch.

BEYOND MOVIES. Others have also been quick to move in. Tim C. Flynn, CEO of LodgeNet Entertainment Corp. in Sioux Falls, S.D., says his company has grown 36% over the past year, to 185,000 rooms served, largely at SpectraVision's expense. He contends that LodgeNet's videotape-based system can provide more movies at a lower cost than SpectraVision. "What they're doing does not add any value in the room," he scoffs.

Weik concedes that rivals' systems can do the basic job of providing pay-per-movies just as well and at a lower cost. But he argues that SpectraVision's payoff will come as the digital system allows it to diversify into new services—such as videoconferencing, interactive training programs, live events, and targeted advertising. Eventually, he argues, SpectraVision will move beyond hotels to serve military bases and hospitals. "We didn't build the digital network just to deliver movies," he says. Even if rivals eventually go digital, he claims SpectraVision will be ahead of the pack in learning to create programs and services for the info highway.

But first Weik must shore up operations and reduce debt. Although he insists there's no fire sale, he is trying to unload stakes in SpectraVision's operations in Hong Kong, Australia, and Canada in deals that should bring $50 million. After dealing with that dose of reality, Weik can dream his digital future.

By Wendy Zellner in Dallas

"As the U.S. economy levels off at cruising altitude, major European recoveries are taking off."

—Money Magazine

Okay, the economy isn't helping any. (Maybe it's time to look elsewhere.)

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[$17 billion in assets]

TELECOMMUNICATIONS

PICK OF THE LITTER: WHY SBC IS THE BABY BELL TO BEAT

It's flying high, but it may be passing up big opportunities

When Southwestern Bell Corp. shelled out $1.4 billion for the cellular-phone properties of Metromedia Co. in 1987, its stock dropped $7 in a matter of hours, and rival executives jeered. After all, Southwestern Bell—renamed SBC Communications Inc. last year—had paid $45 per potential cellular customer (or pop as they say in the business) when no one else had ever paid more than $30. "Everyone figured we were just a rich Baby Bell with bad judgment," says James S. Kahan, senior vice-president for strategic planning.

Not any more. Since that day, the fifth-largest Baby Bell has been on a moneymaking streak. The Metromedia properties are now worth more than $300 per pop and have helped give SBC the highest market penetration of any major cellular operator. The number of local phone lines in its five-state territory, anchored by a booming Texas, grew by a record 3.6% last year, compared with 3.1% for all the Bells. The $500 million investment SBC made in 1990 in a British cable-TV joint venture with Cox Enterprises Inc. is worth an estimated $900 million today. It has just bought 40% of Chilean communications conglomerate VTR Inversiones for $316 million, as an entrée to the lucrative South American market.

WHITACRE: *"My personal objective is to get double-digit earnings"*

STRING OF HITS. Even its 10% stake in Teléfonos de México, bought for $1 billion in 1991 has almost doubled in value. That's despite a 45% plunge in Telmex shares since Dec. 15, which caused SBC to take a $34 million write-off in the first quarter. Analysts say that, despite the near-term damage from the peso crisis, Telmex is a long-term plus for SBC, given the desperate need for more phone connections in Mexico.

The string of hits has made SBC the best-performing of the Baby Bells, which were spawned by the 1984 breakup of AT&T. SBC shares since divestiture, including reinvested dividends, have risen 654%, compared with an average of 461% for the other six Baby Bells (chart, page 72), according to consultant J. M. Lafferty Associates Inc. Why? Because 35% of SBC's earnings come from unregulated business such as cellular phones and overseas investments—roughly three times as much as Ameritech Corp., the next-most-diversified of the Baby Bells. "SBC is like none of the other phone companies," says portfolio manager Michael G. Trotsky of Boston's Independence Investment Associates. "It's a growth play, and it's diversified."

> "SBC is like none of the other phone companies. It's a growth play, and it's diversified"

SBC's future, though, is not quite as certain. Once phone deregulation arrives, the carrier is bound to face tough competition for urban customers in its core local-calling business. And with a global frenzy of telecom dealmaking under way, finding bargains like Telmex will be harder. While SBC gets kudos from Wall Street for not throwing money at every new technology development that comes along, the company may be dealing itself out of some big opportunities.

Take personal communications services (PCS), a wireless technology better suited than cellular is for moving data in addition to voice. AT&T, Sprint Corp. and others are bidding billions at federal auctions for PCS spectrum space, so they can build national PCS networks. But SBC, banking that cellular features will be be able to match those of PCS

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SBC has a low profile on the Information Superhighway, and it lags in personal communications services

over time, has bid less than $40 million to date on licenses that would only fill in gaps in its cellular coverage.

SBC is also conspicuously low-profile on the Information Superhighway. While Bell Atlantic, U S West, and others develop movies-on-demand, SBC has only a vaguely worded agreement with Walt Disney, Ameritech, and BellSouth to develop consumer programming. It also has an under-$10 million pilot project with Microsoft Corp. to test interactive services in Richardson, Tex. SBC's attempt at an I-way megadeal—a $4.6 billion joint venture to share 21 of Cox's cable stations—was nixed by SBC Chairman and CEO Edward E. Whitacre Jr. soon after U. S. regulators lowered cable rates last April. "That was a tough call," says Charles F. Knight, an SBC director and CEO of Emerson Electric Co. "None of us know where cable is going, but Ed decided the timing wasn't right. It's great to see such discipline."

Whitacre's discipline is the bottom line. The board tapped him as CEO in 1990 and gave him a mandate to tighten up SBC's cushy culture. A 31-year SBC veteran, Whitacre yanked managers out of a plush St. Louis headquarters and moved them into rented space in San Antonio. He sold three of the company's seven jets, and demanded fast returns on all ventures.

STIFLING COMPETITION? The strapping 6-ft.-5-in. executive has been known to wander the halls asking employees: "What have you done for my stock today?" Says Whitacre: "My personal objective is to get double-digit earnings as long as I'm around." He has already done it three years running. In 1994, profits surged 14.9%, and sales grew 8.7%, to $11.6 billion. "SBC's still branded a Baby Bell, but people don't realize how much he has transformed the company," says Oppenheimer & Co. analyst Stephen Yanis, who expects annual profit growth of 11% through 2000, compared with 6% for the other Bell companies.

Meeting such aggressive growth targets will get more complicated when local competition arrives. SBC has invested less in its local phone network than other Bells. For example, according to Federal Communications Commission documents, it has been slowest to install digital switches. It has also battled to maintain its local monopoly, while other Baby Bells have been willing to give ground in return for more freedom. "SBC is the worst of the Baby Bells at abusing the process to stifle competition," says MFS Communications Co. CEO Royce J. Holland. "They're all for competition, so long as it's outside their service territory."

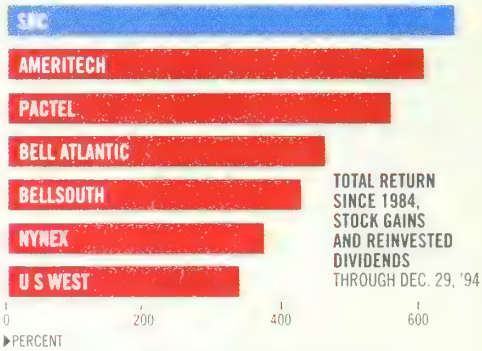
SUCCESSFUL DIVERSIFICATION EFFORTS...

SBC gets 35% of its revenue from new businesses such as

CELLULAR Now neck and neck with AT&T/McCaw, the unit churned out more than $1 billion in cash flow in 1994.

INTERNATIONAL Even with a hit on its 10% stake in peso-battered Telmex, SBC has more than doubled the $2 billion-plus it has invested outside the U.S. It just paid $316 million for 40% of Chile's VTR Inversiones telecommunications conglomerate.

...HELP SBC LEAD THE BELLS IN STOCK PERFORMANCE



DATA: COMPANY REPORTS, J.M. LAFFERTY ASSOCIATES INC

Inside SBC territory, some 20 competitive access providers (CAPs) are already cherry-picking corporate accounts by offering cheaper links to long-distance lines. That stream of rivals could soon be a flood: The Texas legislature may introduce a bill in early March that would open local phone services to competition this fall. "We're at a critical juncture," says SBC Vice-President for Marketing J. David Gallemore, "and we want to make our welcome mat smalle than anyone else's."

One way is to upgrade the SBC net work. SBC has agreed to spend $1 billio over four years to add multimedia capa bilities to its system—if Texas elimi nates regulations that effectively ca SBC profits at a 13.3% rate of return o invested capital. The company has als bumped up its advertising for local call ing by 27% (after seven flat years) an has set up marketing teams to de fend vulnerable niches.

CALLER ID. SBC has mounted a spe cial effort to win back the younge crowd. In 1992, its research foun that people under 35 feel little loyal ty to their phone company and hav a defection risk of 100%, vs. jus 17% for over-55s. So its marketin unit in Austin, home to the Univer sity of Texas, came up with a varie ty of youth-oriented packages an offered them at college registratio sessions. Some 35% of UT student bit—spending about 40% more tha average on such features as SBC' voice-mail service. Now, SBC is acce erating the rollout of other specia features, such as caller ID.

SBC can thank the cellular busi ness for giving it a crash course i consumer marketing. With 2.9 mil lion wireless subscribers—930,00 of them added last year—it is nec and neck with AT&T/McCaw, th largest U. S. operator. SBC's Mobil Systems unit works hard to offe the right mix of features and prices It signed up 7.4% of its potentia customers in 1994, compared wit about 5% for the industry overal "We have to make people realiz that it's just a phone—not a toy fo oilmen and richies," says Mobil Systems CEO John T. Stupka.

Whether SBC can translate th lessons of cellular to its core bus ness is still unclear. With only six c the nation's 50 largest cities in its re gion, SBC is less exposed to competitio than its brethren in densely populate areas. That could protect it from poach ers in the early days of deregulatior but not over the long haul. Still, say S. G. Warburg & Co. analyst Williar Deatherage, "SBC has got a good battin average. They're not a company to be against." Just ask the shareholders.

By Peter Burrows in Dalla

DO YOU KNOW WHERE YOUR PCs ARE?

New services help you keep track of them–and what's in them

For Mandeep Khera, the saying "the customer is always right" just doesn't apply. Typically, they're wrong—and usually by a lot. Khera runs a Hewlett-Packard Co. service that manages all the desktop-computer needs of big corporate customers. One client, Khera recalls, swore the company had 700 personal computers and 5 users per printer. But when an audit was finished, Khera and his people discovered 1,200 PCs and one printer per computer.

Another major corporation called in help when the computer managers realized they had lost track of $20 million worth of PCs. "They knew they were purchased," says William D. Bray, an executive vice-president at Comdisco Inc., the computer-leasing giant hired to find the AWOL machines. "They just didn't know where they were."

NO CLUE. Khera and Bray are part of a fast-growing segment of the computer-services business offering so-called desktop asset management—sort of a cross between a high-tech lost-and-found and efficiency experts that specialize in PCs and related equipment. There's plenty of business: Not only does Corporate America have no idea how many PCs it has, who's running them, or where they are but it also hasn't a clue what's inside them—Doom II or Lotus 1-2-3. "It's a huge problem," says Michael Vargo, an analyst for market researcher Gartner Group Inc. "Organizations have been afraid to go to top management and say: 'Over the past five years we've spent $100 million in PCs, and we don't know where it is.' It's not a career-enhancing move."

Those expenses sneak up on you. The typical corporate PC, complete with software, costs about $4,000 to purchase. But it costs 10 times that to operate a PC for five years, Gartner figures. That's counting all the ancillary services needed—things such as training, help desks to answer questions from users, installing extra memory, and electricity to run the machines. Multiply $40,000 by the 30,000 to 60,000 PCs typically found at major corporations, and "the hidden cost to a company can be immense," says Thomas Trainer, chief information officer of Eli Lilly & Co. "It can be a black hole, financially."

How deep? U.S. industry and government organizations waste an estimated $20 billion annually by mismanaging desktop-computing equipment, according to the Personal Computer Assets Management Institute. Greg Lewis, president of the Rochester (N.Y.) consulting firm, estimates that large companies squander $2 billion annually just by purchasing software and hardware when they have plenty of comparable technology available.

POLLING THE NETWORK. The solution? A raft of new services ranging from special database programs to track every PC to completely "outsourcing" PC support—taking over everything from training employees and running a help desk to getting rid of aging PCs when new ones are bought. Just keeping track of when to replace machines has become a tough job. "The frequency of change is much more dramatic than ever before," says Leon B. Billis, senior vice-president for Equitable Life Assurance.

How did Corporate America get in such a pickle? As companies decentralized over the past few years, more control went to business units and small departments. Frustrated by the bottleneck of getting corporate information-technology managers to develop applications, business managers simply bought their own machines and software—thousands of them. And even when management tries to regain control, "people sneak them in as office furniture," says CIO Trainer.

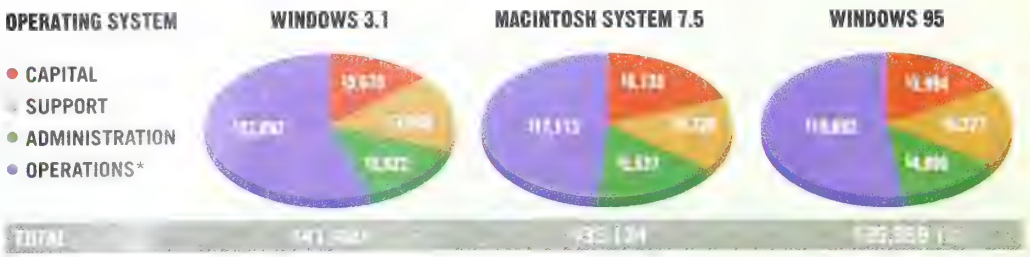
Now, downsizing is exposing the excesses—and corporations are calling in the asset-management services to fix things. What can they do? Tighten control over purchasing and install software that will tell companies how many PCs are out there and what they run—at least the PCs that are networked. "We have perfect information the day we buy them," says Boyd W. Hopkins, vice-president at Cigna Systems, the

PC COSTS: MORE THAN MEETS THE EYE

FIVE-YEAR COST OF OWNERSHIP

*COST ASSOCIATED WITH THE TIME USERS SPEND TO KEEP DESKTOP COMPUTERS UP AND RUNNING

DATA: GARTNER GROUP INC.



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data-processing arm of the giant insurance company. "Then, it atrophies from there." Cigna is looking at software that will keep an eye on its 40,000 PCs.

Once companies get a handle on what they have, they will discover where they may be paying too much—for duplicative maintenance or software licensing fees, for example. Then, they can impose strict hardware and software standards to reduce the number of different products to support—further cutting costs. What's more, a help desk tied into a database listing information on each user will eliminate the first few minutes of each call wasted on gathering that data.

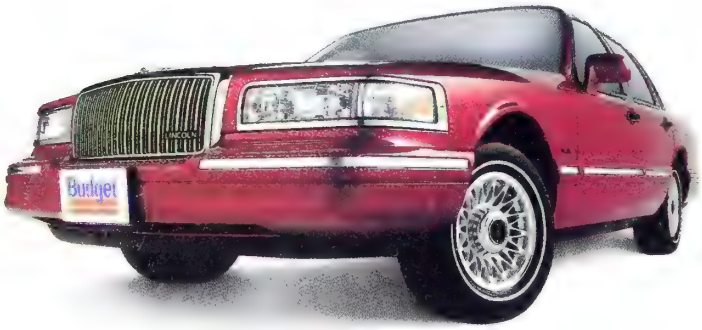
BACK TO LEASING. Meanwhile, collecting that information should get easier: Several computer companies have agreed to develop a standard way to poll computers on a network to learn what components and software they have. On Feb. 27, Compaq Computer Corp. plans to unveil such a system for its computers. Until now, concedes Andrew Watson, Compaq's director of desktop marketing, PC makers have done a poor job providing such asset-management tools. "It's one of the areas we have focused on the least as a group," he says.

For customers who find it all too confusing, the answer could be to avoid acquiring the assets in the first place. To furnish 6,000 PCs for its agents, Equitable is returning to an old computer-industry practice: leasing. IBM Credit Corp., the computer giant's leasing subsidiary, will install all the machines and replace them every two years. Now, the risk of the technology becoming out of date is "transferred from the customer to the vendor," says John E. Callies, a general manager at IBM Credit.

Meanwhile, PC makers are rushing into asset management. "Strategically, it will be very important to help grow the PC business," says HP's Khera. On Feb. 1, IBM Credit bought Chrysler Systems, a unit of the auto maker's finance subsidiary that provides services such as asset management. Dell Computer Corp. is also adding asset-management services. "If customers view Dell as offering more value because we lower the cost of ownership, we're in a much better position not only to gain share within those customers but also more loyalty to Dell as a brand," says Rosendo G. Parra, group vice-president for major accounts. In an industry of never-ending price wars, it could even be a way to make a profit.

By Ira Sager in New York, with Gary McWilliams in Houston

Who gives you free airfare after six rentals?



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THE TECHNOLOGY PARADOX

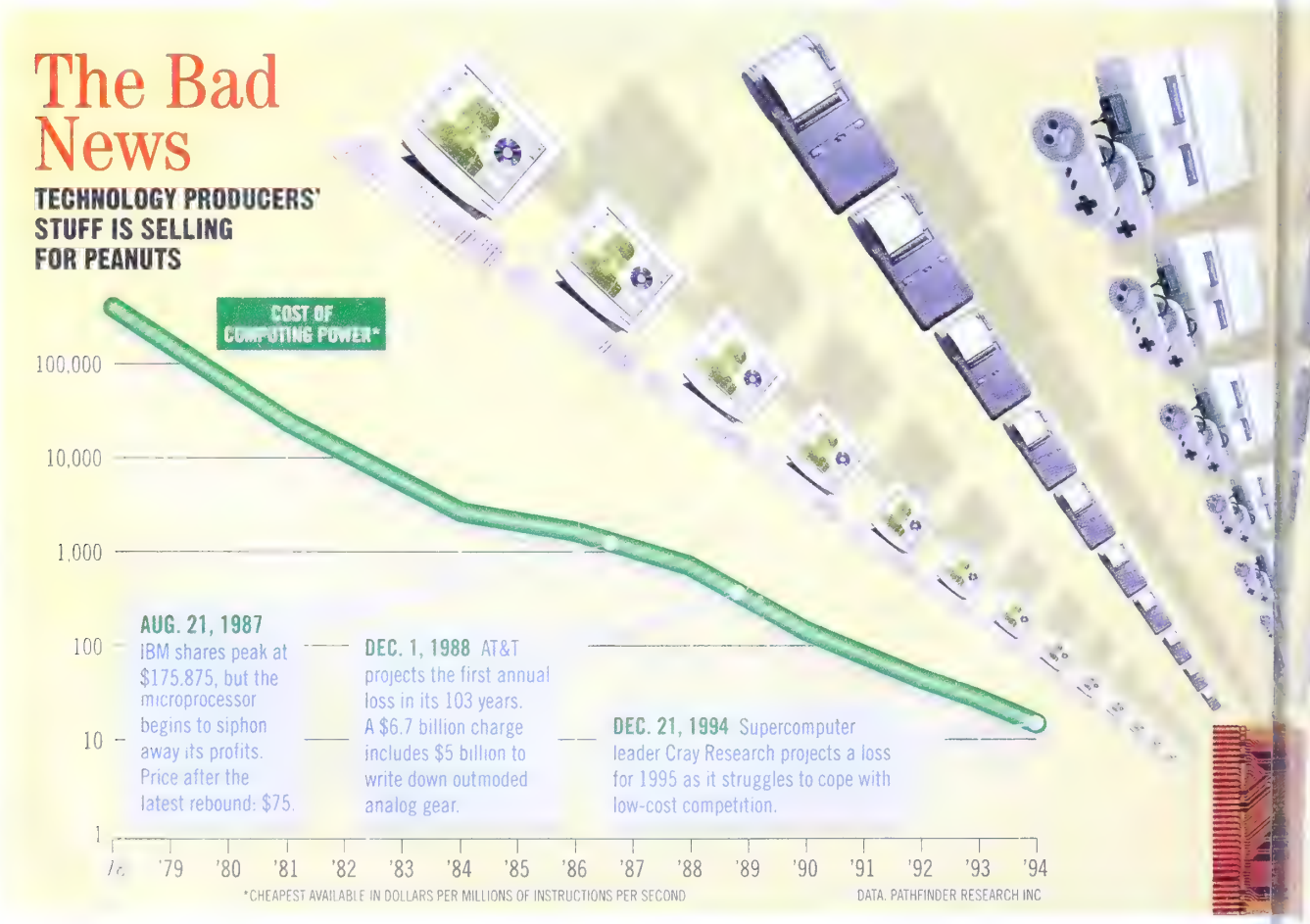
How companies can thrive as prices dive

When Computer Associates International Inc. introduced an accounting program, Simply Money, in 1993, it picked a daring price point for its first million copies: zero.

Toshiba Corp. happily admits that its forthcoming digital-movie player will never earn back the investment poured into it.

Order service from Teleport Communications Group In and a Teleport crew will install a dozen optical fibers wi a million times the capacity you wanted—at no ext charge.

Are these companies crazy? No, they're obeying a new s of rules—seeming paradoxes that only make sense in lig



f the ongoing revolution in the price nd capability of digital technology. To vit: Computer Associates gave away Simply Money software on the theory hat favorable word-of-mouth would utweigh the trivial expense of making he diskettes—and persuade customers o buy upgrades and related programs. Toshiba plans to recoup its development cost for digital videodisks with pin-offs in other products, from high-apacity audio players to storage devic-s for laptop computers. As for Tele-ort: Optical fibers are so cheap that it nakes sense to install enough capacity o last a lifetime.

> "How do you assign prices or value in a world where quality is perfect and nothing breaks?"

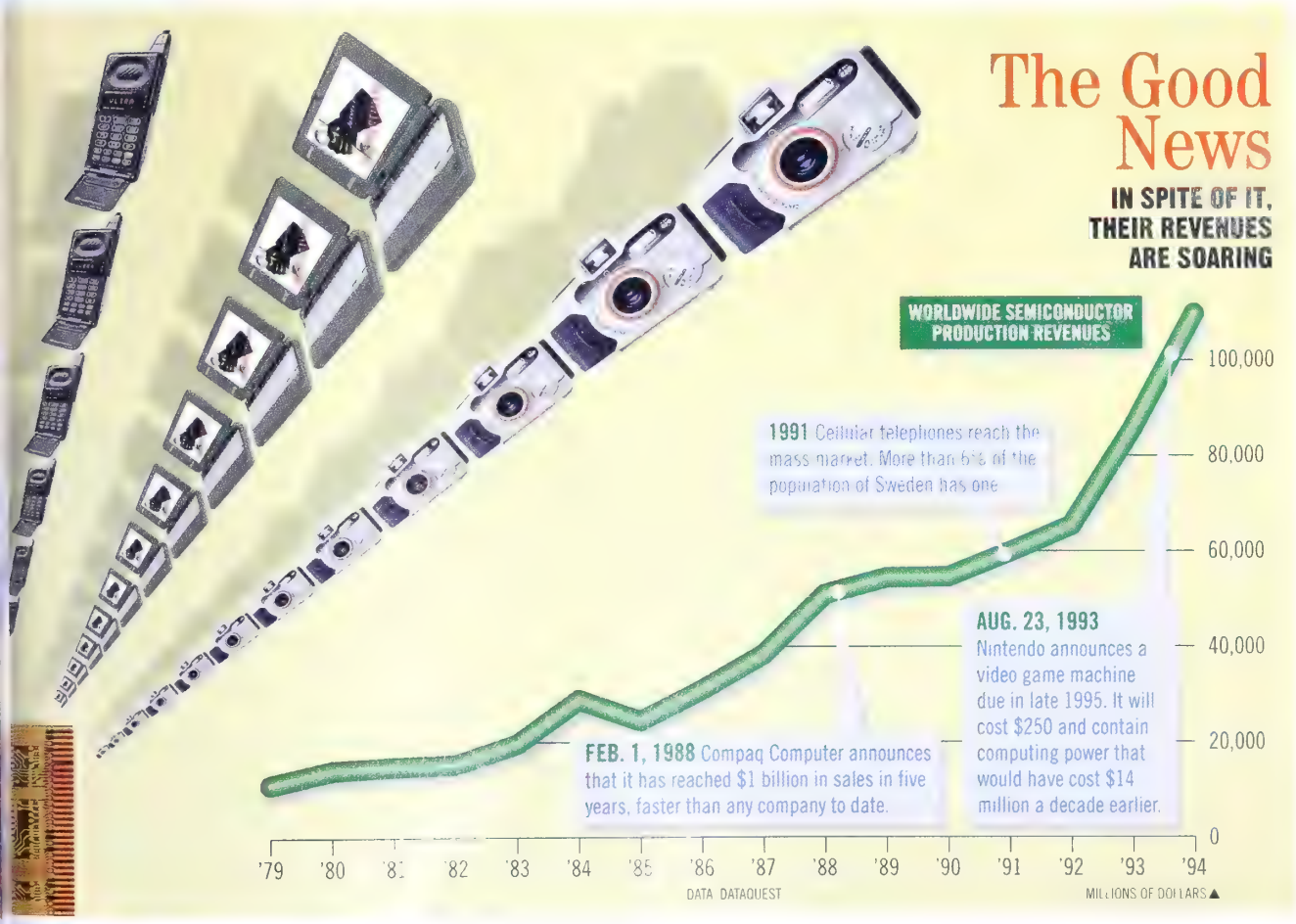
That's the technology paradox: Busi-esses can thrive at the very moment when their prices are alling the fastest. "The only thing that matters is if the xponential growth of your market is faster than the expo-ential decline of your prices," says George M. C. Fisher, hairman and CEO of Eastman Kodak Co. The challenge is normous, he says. "Companies have to project out: 'How vill I be competitive in a world (in which) technology will e virtually free?'"

ANISHING POINT. High tech has had its own inverted econom-logic ever since the invention of the transistor at AT&T Bell aboratories in 1948: Power goes up and price comes down in ockstep. In the past few years, though, cheap technology has rossed an invisible threshold to assume a central role in conomies around the world. In 1994, Americans spent more n home PCs than on TV sets. Cyberspace became a middle-lass suburb. *People* magazine named Internet guru Vinton G. Cerf one of the 25 most fascinating people of the year. Five thousand Vietnamese owned digital cellular phones. Wounded by the microprocessor revolution, supercomputer giant Cray Research Inc. saw its stock fall to barely 10% of its 1987 value.

The business world, in short, is being stood on its head. This creative destruction has fractured rock-solid principles of commerce of decades past. Among the casualties: 10-year plans and deliberate pacing of product cycles. Clear distinctions between custom and mass markets. Giant soup-to-nuts systems from single companies—such as IBM's long-dominant mainframe computer networks.

The new rules require more than ingenuity, agility, and speed. They call for redefining value in an economy where the cost of raw technology is plummeting toward zero. Sooner or later, this plunge will obliterate the worth of almost any specific piece of hardware or software. Then, value will be in establishing a long-term relationship with a customer—even if it means giving the first generation of a product away. This won't happen with cars and other products built from bulk materials such as steel, but it's already happening with the electronics systems that are increasingly becoming an integral part of these products.

No single set of rules works for every player. A strategy of domination and control befits the likes of Intel Corp. and Microsoft Corp., which own vital standards and charge handsomely for them. There's also money to be made at the other extreme, in pure commodities, from basic disk drives to plain-vanilla consumer electronics. Dynamic random-access



memory (DRAM) chips, for example, perhaps the purest example of a commodity, have once again become the biggest source of profit for Japan's hard-pressed electronics giants as huge demand has propped up their prices.

For most companies, however, the technology revolution dictates a middle course—latching on to a standard rather than creating one, and then putting in a little something extra to elevate one's product above commodityhood. Compaq Computer, Dell, and Packard Bell Electronics survive the PC wars by tweaking the Intel-Microsoft standard to boost the speed or enhance ease of use. Sharp Corp. made a best-seller out of an ordinary video camera by building a flat-panel TV screen into it.

To companies struggling to adapt, this brave new world isn't so wonderful. Their high-tech crown jewels are suddenly all but worthless. AT&T has taken billions of dollars in charges since 1984 to get rid of obsolete jobs and equipment. IBM, DEC, and Wang Laboratories are still trying to recover from the blow dealt by the microprocessor.

Japanese companies have been hit especially hard. The country's consumer-electronics industry has been mired in single-digit growth since the mid-1980s. Who needs a $500 camera when disposable models come with panoramic, telephoto, and underwater lenses? Dime-store digital watches keep time as well as costly chronometers. And the sound on cheap portable CD players is so good that savvy Tokyoites plug them into speakers in lieu of buying fancy audio systems. "How do you assign prices or value in a world where quality is perfect and nothing breaks?" asks Yotaro Suzuki, senior vice-president of the Japan Institute of Office Automation in Tokyo.

FROM NIBBLE TO CHOMP. The wave of downsizing that swept the computer industry is about to come crashing down on telecommunications gear (page 84). Companies such as Cisco Systems, Synoptics Communications, and Cabletron Systems stole a march on the likes of AT&T, Northern Telecom, and Siemens with equipment that links PCs in networks. Says Daniel Lynch, chairman of Interop Inc., which runs trade shows: "The new guys start out nibbling. The big guys never notice. And then, boom!"

Successful strategists soak out costs, cut prices, and then wait for business to roll in. Step 1 is a price decline—say, in DRAM chips. At first it causes chaos, as in the early 1980s, when American producers fled the DRAM market amid cries of Japanese dumping. In Step 2, the market finds a new use for the cheap resource. Case in point: Windows software, which is ubiquitous and gobbles megabytes of DRAMs. Unit

prices of the chips may fall, but gross revenue soars—a point that is lost on those who once again predict doom for commodity chipmakers. The next wave of chip demand will come from the likes of computers that obey spoken commands and communicate in 3-D images. After that? Believable virtual reality and intelligent artificial intelligence.

The new rules of "techonomics" practically guarantee that high-tech product gluts will be temporary. That's because the economy and society will reshape themselves to take advantage of the cheap resource, whether it's computers that talk or satellites that track stolen cars. Demand for digital resources—unlike demand for, say, food and clothing—is almost infinitely elastic. Witness the hockey-stick shape of graphs plotting usage of online services. Marvels Steve Case, president and CEO of America Online Inc.: "Things take a while to coalesce, then they explode."

Even the ubiquitous microprocessor was once seen, by its own inventors, as a niche product. Intel co-founder Gordon E. Moore rejected a 1970s proposal for a home computer

The New Rules Of The Game

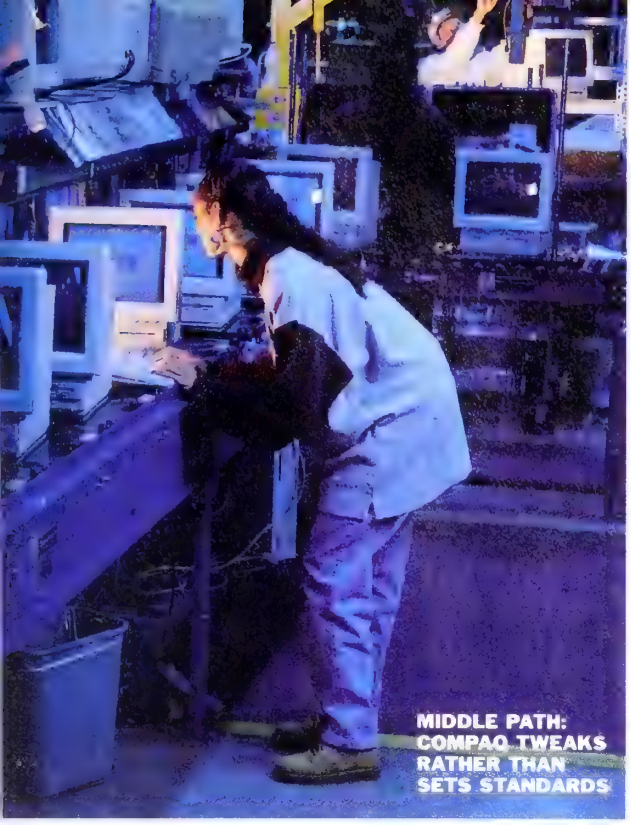
The advent of "free" technology is forcing companies to master some slippery concepts. Warning: Not every rule is appropriate for every business.

Products are most valuable when they're cheapest. The niche for high-priced products gets ever smaller. Low prices and high volumes are the way to go. Just ask Compaq Computer.

Make money by giving things away. High tech loves shaving economics—giving away the razor to sell more blades. Mosaic software for the Internet started out free. Now, its creators sell it as Netscape.

Teamwork conquers all. The complexity of the latest electronics gets—such as digital satellite TV—requires the kind of collaborative system design that used to be the province of general contractors on aircraft, ships and moon shots.

Mass-customize. To avoid the too commodity trap, use agile manufacturing techniques to make each product off the line unique. That's how Dell PCs and Matsushita sells mountains



MIDDLE PATH: COMPAQ TWEAKS RATHER THAN SETS STANDARDS

NO FUTURE In the '70s, Intel's Gordon Moore "didn't see anything useful" in building home computers

ilt around an early microprocessor. "I personally didn't see ything useful in it, so we never gave it another thought," later recalled. In a list of possible uses for its 286 chip itten before the success of the IBM PC, Intel omitted the rsonal computer, thinking instead of industrial automation, ansaction processing, and telecommunications. But then, story is replete with overlooked opportunities, from crowave ovens to fiber optics (table, page 80).

The signs that the old way of doing business was failing st became apparent in the mid-1980s. Electronics seemed e a dead-end street. Intense global competition had ripped ofits out of the consumer-electronics industry, and the chip d computer industries seemed destined to follow. Says ark Rosenker, vice-president of the Electronic Industries sn.: "We were walking around with our heads in our hands ying, 'My God, what's happening to us?' " Many theorists gued that the only way to win was to emulate huge, rtically integrated Japanese conglomerates, which could ord to make all their own components, lose money launching new products, and weather debilitating price wars.

The pessimists were proven wrong. By the early 1990s, a new strategy took shape in the chip, PC, and communications wars. To survive, smart middle-tier companies, which were neither owners of a standard nor pure commodity players, stopped focusing on the product alone. They started concentrating on whole "architectures," or grand schemes for integrating many products into smoothly functioning systems. The approach required an intimate knowledge of customer needs, the ability to read technology road maps three to five years off, and a willingness to look beyond easy opportunities in the current mass market.

Small chipmakers such as LSI Logic, Cirrus Logic, and VLSI Technology couldn't sell a new PC microprocessor: Intel had that business sewn up. So they took aim at so-called chip sets that added sound and visual effects for PCs and on emerging-device areas, such as digital settop boxes that link up to the Information Superhighway.

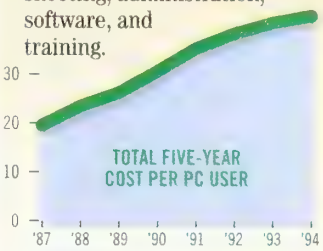
FITTING IN. Europe and Japan offered fertile ground for these American hotshots. Open up a Canon single-lens reflex camera, a Ricoh fax machine, or a Philips Magnavox television, and you'll see specialized U. S. chips. Sony Corp.'s much admired game machine, the Play Station, runs on a chip designed by LSI Logic.

Companies don't have to create a new architecture—only fit into one. That's how C-Cube Microsystems gained leadership in the fast-growing field of digital signal compression. Managers didn't even think of protecting their 2½ years of work on a powerful video-compression chip behind a wall of patents and copyrights. Says C-Cube founder Alexandre Balkanski: "The whole trick is to get in quickly and run as fast as you can. There are no birthrights."

Digital satellite TV provides a glimpse of the strategies that will work in the future. A band of companies led by General Motors Corp.'s Hughes Electronics began planning it four years ago after calculating that the necessary components—then far too costly—were about to become affordable. They were right: Partner RCA, a unit of France's Thomson, was able to offer a home dish and decoder starting at $699. Since last June, more than 400,000 American homes have signed up.

PCs: NOT SO CHEAP AFTER ALL

The initial purchase price of a corporate personal computer accounts for only 10% of its lifetime cost. The rest: trouble-shooting, administration, software, and training.



DATA GARTNER GROUP INC

The confidence to take the gamble on satellite TV came from the designers' familiarity with the unique economics of silicon. Every 18 months or so, improvements in chipmaking technology make it possible to double the performance of silicon at no increase in price. More compact circuitry makes chips faster because electrons have less distance to travel. And as chips get smaller, more of them can be stamped out of the same slice of silicon. Consequently, single chips have taken over functions that used to be performed by refrigerators full of diodes, triodes, and capacitors. And chipmakers have assumed roles once performed by a wide range of companies, from makers of discrete electronic components to suppliers of software. "The food chain is collapsing," says Gilbert F. Amelio, CEO of National Semiconductor Corp.

The ascent of chips means that rules of play that originated in Silicon Valley are governing an ever growing segment

y up and waste. Engineering ncy in product design may be ıut with computing and communi- resources so cheap and speed to t so essential, quick-and-dirty is he best route.

t fear gluts. Demand for indi- products rises and falls, but hun- such things as computing power he long term, insatiable. Memory are fantastically profitable despite lowly "commodities."

of the economy. Around 2000, high-volume microprocessors will crack the "bips barrier"—execute more than a billion instructions per second. That will provide a playground for designers to come up with an almost limitless range of products, from holographic videoconferencing to Oracle Corp. CEO Lawrence J. Ellison's pet craving—a personal digital assistant that alerts your cardiologist if your company's stock falls. But manufacturers beware: These miraculous devices will be subject to the same punishing cost curves as PCs and cellular phones.

Advances in optic fiber will mirror the miracles in silicon. Engineers continually upgrade the capacity of hair-thin glass fibers by jacking up the pulse rate and splitting the light beams that carry information into multiple wavelengths. Already, the cost of carrying one more phone call is practically zero, making the call a tricky product to price. Some long-distance carriers have even adopted "postal pricing," in which the cost of a three-minute call is the same anywhere in the continental U. S.

The same is true of software. The incremental cost of manufacturing one more diskette or CD-ROM containing software is close to zero. Consumers know that, which is why many feel justified in making illegal copies. Some idealistic programmers, like those affiliated with the Free Software Foundation in Cambridge, Mass., even argue that copying should be free. To help counter that movement, software publishers know they must give customers something more than a platter of bits. Makers of mainframe software are stressing customization or 24-hour maintenance agreements. Entertainment-software companies are acting like magazine publishers, building brand names by churning out titles frequently at easy-to-swallow prices.

"SPLENDID" PIRATES. There's an old joke about a dim manager who brags to his boss that their company is losing money on every sale—but making it up on volume. In the era of "free" technology, that manager doesn't seem so stupid anymore. With the production cost of hardware and software so low in comparison to the development cost, it actually can make sense to give stuff away in order to establish a market toehold and start a profitable long-term relationship.

Michael Goldhaber, president of the San Francisco-based Center for Technology & Democracy, sees these grabs for mind share as the early manifestations of a coming high-tech "attention economy" in which attention from others is the scarcest and hence the most valuable commodity. Mak sense: Bits and bytes are virtually unlimited, but there a still only 24 hours in a day.

Media baron Rupert Murdoch understands that. India, pirates steal the signal from News Corp.'s Star TV sa ellite and profit by reselling the programs to people ov cable. "Some cynics have said this will be fatal for Star. V disagree," Murdoch said in a speech last year in Melbourn His logic? The pirates—or "splendid entrepreneurs," in h words—are simply broadening the potential market for St TV and allowing Murdoch to raise advertising rates.

If attention is the most precious resource in a free-te economy, then it makes sense to throw battalions of che bits into capturing a share of it by making products excitin easy to use, or preferably both. Work on the interfa between human and machine alrea consumes three-quarters of the develo ment work on electronic products, sa Gary A. Curtis, a Boston Consulti Group Inc. vice-president and leader its worldwide information-technolo practice. Nonetheless, technology kee getting more costly in terms of the ti required to master it. Consultant Ga ner Group Inc. calculates that the li time cost of owning an ordinary cor rate PC—troubleshooting, training, a all—comes to more than $42,000.

> Is an "attention economy" emerging in which mind share will be the most valuable commodity?

In Goldhaber's attention econo attention is reciprocal: Producers get from consumers by showering it them. Success will hinge on "letti customers define what they want buy," then building it to order, says Roger N. Nagel, depu director of Lehigh University's Iacocca Institute. The cost the parts will be almost incidental to the price of the fi package, which includes service and follow-up modificatio Those who offer attractive packages can virtually give aw their hardware, says Nagel: "Tomorrow's factories will s customer gratification, not things."

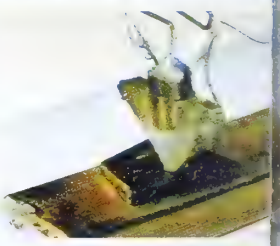
Ultimately, companies will "mass-customize" their pr ucts, which means serving the mass market with produ that are nonetheless tailored to individuals. Dell Comput Corp. already bundles each PC with software and periph als that the customer demands—a level of customization p viously reserved for cars and houses. The goal is to live a commodity marketplace without serving up a commodi Says Kodak's Fisher: "Every unit coming down the li should be capable of being different from the one that p ceded it."

This, after all, is where the Japanese went astray. Mu

How Little They Knew

Technologies begin life fragile, costly, and only marginally useful. Plastic's original use was for a Rolls-Royce gear-shift knob. Aluminum started out as jewelry. Inventions become widely applied when their quality goes up and their price comes down—a pattern most obvious in electronics. Some examples:

◄ MICROWAVES
Microwaves came into use for radar in the 1930s, restaurant cooking in the 1950s, and home cooking in the 1960s. Soon, longer-wavelength radar on a chip will sense when an infant stops breathing.



▲ TRANSISTORS
Early transistors couldn match the speed and fi of vacuum tubes, which are nearly museum pie

SINCE THE '80s, JAPAN'S ELECTRONICS INDUSTRY HAS BEEN MIRED IN SINGLE-DIGIT GROWTH

DEAD END The Japanese-style company ceased to be a model for success

their electronics universe is ıalog and electromechanical, with gh-priced paraphernalia of spin-ng platters, motors, shutters, ıd lenses that take teams of :perts to modify or enhance. So hile American companies rushed rward with customized, multi-nction chips that formed the heart of high-value, new prod-:t categories, Matsushita, Sony, and Sanyo—the original mmoditizers—were endlessly mired in low-margin "box ısinesses." Their VCRs and microwave ovens could not :ploit the economies of the silicon curve.

Nintendo Co. was one of the first to find a path out. 'here's no way to charge a premium on hardware," says intendo President Hiroshi Yamauchi. So the world's lead-g video game company charted a business model in which e game consoles would be "given away" to consumers at st, or even below, to boost sales of software. Virtually all Nintendo's considerable profits flow from sales, license fees, ıd manufacturing charges on the game software.

Free technology demands that engineers learn a whole :w discipline: wastefulness. Makers of custom logic chips gularly stitch together quick and loose designs on silicon, uandering what used to be precious "real estate" on the ıip, to get products to market faster. It's hard on designers who take pride in writing tight code and building efficient systems. But why waste time and effort making efficient use of something that isn't scarce? The logic also applies to software. Microsoft's Windows 95 will be huge and slow on today's PCs. But Microsoft knows that customers will simply buy new computers or add memory to their old ones.

To be sure, there will always be some sectors, such as video transmission today, where shortages of capacity make efficiency a winning strategy. Efficient software for data and video compression, for instance, is a boom industry. But compression only creates more room—on a disk or over a phone line—for some other programmer to be creatively wasteful.

While free technology makes room for creativity, it also intensifies global competition. Cheap communications mean chipmakers in Silicon Valley can farm out work to Taiwan or Tel Aviv. "We have no monopoly in this country in 1994 on technology smarts and capabilities," says Warren McFarlan, senior associate dean of Harvard B-school. A visit last summer to four software companies in New Delhi opened his eyes: "They are dominated by Harvard and MIT PhDs and are every bit as good as any firm I've looked at in the U. S."

Yet it's misguided to worry that in a free-tech economy, all

TERNET

/'s worldwide Internet for ıuter communications is ıtgrowth of a U.S. mili-ıetwork designed to sur-ı Soviet nuclear attack.

▲ SOUND RECORDING

Music was way down on Thomas Edison's list of uses for the phonograph. No. 1: A dictating machine for letter writers.

▶ OPTICAL FIBERS

When Narinder S. Kapany made the first optical fibers in 1952, they could carry light only a few feet. The first use was to probe inside the body. Then came low-loss fibers. Says Kapany: "The horizons are just as exciting if not more than they were 40 years ago."

(TOP) PHOTOGRAPH BY DENNIS PITLOCK

PRIME SEATS ARE STILL AVAILABLE FOR THE SPORTING EVENT OF THE YEAR.

*Based on MSRP comparison of base Taurus vs. the leading sellers in its class.
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INTRODUCING THE NEW FORD TAURUS SE

It's the Taurus with a decidedly sporty edge. Taurus SE's cast aluminum wheels, new clear lens headlamps and available spoiler make a serious statement of style. Inside, the SE has a long list of driver-friendly touches. Even air conditioning comes standard. And, of course, Taurus SE also gives you the added safety of standard dual air bags to supplement safety belts for the front passenger as well as the driver, and available anti-lock brakes.

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manufacturing, service, and even engineering jobs might migrate to low-wage nations. Where product cycles are shortest, such as in PCs, factories have remained inside the biggest markets—such as the U.S. and Japan—to save shipping time. Engineers also prefer to be close to the largest, most sophisticated markets. Taiwan's Acer Inc., one of the most aggressive PC price-cutters, is moving most of its assembly for the U.S. market to San Jose.

Cover Story

Information technologies will never be literally free—just when they start to seem so, someone finds a way to consume so much that they start to seem scarce all over again. Then the cry goes out for still more capacity and speed. That virtuous cycle promises to keep rolling as long as there are people with the imagination to envision something better.

By Neil Gross and Peter Coy with Otis Port in New York with bureau reports

TELECOM: CAN THE OLD GUARD SWITCH GEAR?

A telephone-company switch looks almost like a mainframe computer. It's a huge metal cabinet in a locked room, costs millions of dollars, and has thousands of wires leading out of it. The companies that make them—such as AT&T, Northern Telecom, Siemens, Alcatel, and Fujitsu—have noticed the similarity. And given the mainframe's sorry state, the comparison terrifies them. Says Harry Newton, a New York telecommunications consultant and publisher: "This is the last and largest major industry that's reassessing every assumption."

The traditional manufacturers of telecom equipment are about to get zapped by the new rules of the game. They're accustomed to product cycles lasting 20 years. They are used to making big profits from software upgrades that no one else can supply. And the only things they give away are canapés and cocktails to phone-company purchasing managers.

To be sure, the switching business is still healthy. AT&T's Network Systems unit posted a 20% gain in revenue last year. China alone anticipates buying switches to serve 10 million new phone lines a year. And change tends to come slowly: Phone service is too vital to be trusted to the latest untested "hot box."

WAVE UPON WAVE. For all that, old-line companies smell change. They know that their products are vulnerable to the same punishing cost curves as computers. Plentiful capacity over optical fibers makes new types of equipment feasible, while deregulation is luring in new service providers that are willing to try different suppliers. "You have three or four waves of technology coming, all in the context of multibillion-dollar investment plays," says Patrick Courtin, CEO of ComStream Inc., a San Diego-based manufacturer of digital transmission gear.

ZAPPED Optical fiber is changing the rules for switchmakers

AT&T and its ilk have already largely missed the booming market for data-networking gear from companies like Cisco Systems, Cabletron Systems, and Bay Networks. The old guard thinks it can recoup lost ground with asynchronous transfer mode (ATM), which is capable of mixing voice, data, and video traffic. The big switchmakers have poured hundreds of millions of dollars into ATM development. Yet so far, most sales have been in office networks, where smaller companies, such as Newbridge Networks Inc., have gobbled up the orders. Finland leads the world in per-capita deployment of ATM in public networks, yet it has bought virtually none of its gear from the big-name players. Instead, Juha Heinanen, technology director for Telecom Finland, has installed smaller ATM switches from such companies as General DataComm in Middlebury, Conn. Says Heinanen: "You buy a big switch, and it's obsolete almost instantly. A small one, you can find a place to move it where the new requirement isn't so important."

"DO YOU CARE?" Lightly populated Finland may not be a typical case. Yet the core business of circuit switching is also under attack. Dozens of small companies are building cheap switches from the innards of personal computers. They're slightly less reliable, but that may be O.K. for certain price-sensitive applications. Meanwhile, Microsoft, IBM, and Novell are pushing standards that give computers control over costly office phone switches called PBXes. Once the computer is in charge, asks Russell W. Bell, a marketing director at Advanced Micro Devices Inc., "do you care if the PBX is made by AT&T or XYZ?"

To be sure, there will always be a role for large, complex switches of the type made by AT&T, Siemens, and the like. Plus, those giants retain unparalleled expertise in managing network design and construction. They also understand how to guard network reliability. Says Harry Bosco, the top engineer for AT&T Network Systems: "You can't just throw it all in the air and say, 'We'll change the whole direction overnight.'" True enough. But cheap and fast always seem to win out. If these giants don't move quickly, they may end up following someone else.

By Peter Coy and Neil Gross in New York

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BANKS

AN AUDACIOUS ALPINE ASSAULT

Can once-stodgy Swiss Bank Corp. turn itself into a global finance powerhouse?

BLUM: TOUGH EVEN FOR A SWISS BANKER

"I consider myself a hard man. Perhaps that's why I drive the people around me so hard," says Swiss Bank Corp. CEO Georges Blum. "I suppose that is why I am occasionally typecast as a tough guy."

"Occasionally" is putting it mildly. Ever since he took over from his reserved predecessor, Walter G. Frehner, in 1993, Blum has been pushing through a cultural revolution that's shaking his $170 billion, 123-year-old bank to its core. He is trying to shock it out of decades of lethargy and build an American-style global trading and investment bank from scratch. With the likes of J.P. Morgan & Co. and Goldman, Sachs & Co. as his models, Blum's audacious goal is to vault Swiss Bank into "the top bracket" of 10 investment banks he thinks will dominate global finance by the decade's end.

YANKEE TRADERS. With the global bond market ailing, this isn't the easiest time to try to make a big splash in investment banking. But Blum, 60, is taking a novel tack. He is betting he can leapfrog other big banks, some with more capital and others with closer client relationships. To pull this off, Blum is turning to a high-tech SWAT team of American traders, quantitative analysts, and bare-knuckle investment bankers to perform a "radical transformation," says CFO Peter A. Wuffli, a 37-year-old former McKinsey & Co. banking consultant.

Blum's Achievements, and the Hurdles Ahead

DOMESTIC RETAIL BANKING

ACHIEVEMENTS With the Swiss market stagnating, Blum has slashed costs and introduced new products to boost revenues.

CHALLENGES That may not be enough. Some say he'll have to buy a smaller private bank to secure higher returns.

To many observers, such a transformation was long overdue. In the 1980s, the bank seemed to lose its way amid intensifying competition and a slew of bad real estate and takeover loans. Even then, says international banking chief Marcel Ospel, 44, "we wanted to be a different kind of animal." That realization drove the bank in 1991 to purchase one of the top U.S. options-trading groups, Chicago-based O'Connor Partnerships. Blum built on that plum by shelling out $750 million in stock late last year to purchase Brinson Partners Inc., a $36 billion global asset management firm that also hails from Chicago. With staffers from O'Connor and Brinson now assuming responsibility for huge portions of the bank's international business, the acquisitions are quick

making the bank "more American tha it is European," says Deputy Chief E ecutive Johannes A. de Gier.

The Yank influence on the bank's cu ture has become so pervasive that son have begun referring to the moves as reverse takeover by the Chicago trade and money managers. The America do little to refute that notion. "It hasn been a takeover," says former O'Co nor chief John Dugan. "It's a makeove

Still, Swiss Bank has managed to r tain its foundation of Old World gol Based in the ancient Rhine River city Basel, the bank boasts a rock-solid ca ital base, a AAA credit rating, stea streams of revenue from as much $300 billion in private-banking accoun and a roster of blue-chip commerci banking customers on both sides of t

iantic. Many investment bankers be-
ve that if anybody can muscle into
investment-banking turf dominated
Americans, it will be the big Swiss
nks. But doing so is exposing Blum's
erations more than ever to the mood
ings of the global money market.
Lately, these swings have taken
iss Bank's profits on a wild ride: Af-
a huge surge in profits during 1993's
bal bull market in bonds and deriva-
es, earnings collapsed in 1994 when
S. interest rates soared. Some ana-
ts expect that when the bank releas-
its results on Mar. 15, profits will be
vn by 35% or more. Other big play-
in trading and derivatives such as
dman Sachs, J. P. Morgan, and Bank-
Trust also were battered by higher
es. But international banking chief
oel warns that going head to head
h these and other top U. S. competi-

RADING

CHIEVEMENTS Blum bought Chicago's
ttest options house, O'Connor Partner-
ips, and spread its staff around the
orld—making Swiss Bank one of the
orld's most technologically savvy traders.

HALLENGES Even the Chicago PhDs could
t overcome the weight of last year's bond-
arket collapse and emerging-market rout.
ading volume and earnings are sagging.

s will be "a costly, bloody exercise for
next three to five years." And that's
king investors nervous.
Swiss Bank's profits are already back
where they were five years ago, and
shares are now trading at only 80%
book value, estimates analyst Hans
ufmann of Zurich's Bank Julius Baer.
pel says he is not worried about
ire prices, as long the bank is profit-
e and able to finance its investments
new technology. But Swiss analysts
the bank could now be vulnerable to
akeover—something that would make
icemeat of Blum's grand design.

NIM BRIGADE. Blum, a 34-year Swiss
nk veteran who converses comfort-
y in five languages, appears to be
fazed. He pledges to double the
ik's anemic return on equity to 15%
hin four years, period. "Some say
we should fix goals of 10 to 20 years," he says during an interview in his office bedecked with Abstract Expressionist art. "But when you do that, you have no action. And I need action."

Action is what he is getting. Blum scrapped the bank's 6,500-person international division's regional fiefdoms in favor of a worldwide management structure organized around product lines. As O'Connor's young, blue jeans-clad partners have taken up posts in Zurich, London, Basel, and other cities, a startling culture change has taken root. Along with new products, the Americans have brought new ideas on using derivatives in investment banking. They have also injected a much-needed dose of entrepreneurial spirit into the loan-oriented international division. And they have moved into many powerful jobs.

All 28 O'Connor partners joined the

GLOBAL INVESTMENT BANKING

ACHIEVEMENTS The Federal Reserve in December gave Swiss Bank the nod to do full-scale debt and equity underwriting in the U.S. Blum envisions a flood of new products—and steady growth.

CHALLENGES Derivatives have a bad name lately; Wall Street is in a severe slump. The bank has drawn allegations of insider trading in London. It denies wrongdoing.

bank as managing directors or better. Half of the seats on the board that runs the bank's international division—the focus of Blum's transformation efforts—have gone to Americans. And two of the Windy City imports—Dugan and Brinson Partners founder Gary P. Brinson—were named to Swiss Bank Corp.'s 15-member executive board.

As Blum's reorganization has gained momentum, executives from top to bottom have begun following an American management maxim: Offer shareholder value. Wuffli has launched an investigation to determine how each of the bank's businesses might be priced by such shareholder value proponents as maverick Zurich financier Martin Ebner, who has tried to force changes at Union Bank of Switzerland by purchasing large blocks of its stock. Wuffli wants to use his exercise to see where Swiss Bank could obtain maximum returns.

The makeover has boosted the bank's market strength in crucial areas. Already a leading Eurobond underwriter, it has used its O'Connor ties to move to the top ranks of dealers in foreign exchange options—a mainstay of corporate currency hedging programs. However, it has been in what de Gier calls "the gray area" between traditional equity markets, derivatives, and corporate finance that Swiss Bank has most intently focused its high-tech firepower. Nothing illustrates this better than the bank's current efforts to help Trafalgar House PLC, a British real estate developer that's mounting a $2 billion hostile takeover bid for Northern Electric PLC, a large utility.

Swiss Bank made it easy for Trafalgar to accumulate its initial stake in

MONEY MANAGEMENT

ACHIEVEMENTS Blum wound up 1994 by purchasing Chicago-based Brinson Partners, one of America's most successful global asset managers. Brinson will take over Swiss Bank's own international money management business.

CHALLENGES Critics say Brinson's hefty $750 million price tag means the deal will take several years to pay off.

Northern Electric by selling the developer call options on shares of Northern and several other utilities. The options contracts gave Trafalgar the right to buy the utilities' stock at a fixed price. The deal also avoided tipping the market that a takeover was on the way. When Trafalgar announced its bid for Northern on Dec. 19, electric utility share prices jumped across the board, enabling Trafalgar to walk away with a $12 million profit as it exercised its options. But the deal raised howls from other traders. They complained that Swiss Bank's market-makers, who sold the options to Trafalgar, had also been secretly accumulating huge stakes in the utilities for the bank's own account.

Whether these purchases were designed to further Trafalgar's bid or reap big profits for the bank is now the sub-

ject of controversy. The London Stock Exchange had previously cleared the options contracts. And the bank notes that its traders, as market-makers in active stocks, were not required to publicly disclose their holdings. But the Securities & Futures Authority, which regulates the bank's securities unit, is now considering whether its traders violated insider-trading rules. In a statement, Swiss Bank says that "there is no question of any breach of insider trading legislation."

HELPFUL HAND. Whatever the outcome, a willingness to employ novel techniques is destined to become a hallmark of Swiss Bank's approach to corporate finance. Well aware of the roasting Bankers Trust New York Corp. has taken for flogging high-risk derivatives to unwary treasurers, Ospel is pushing his bankers to open their computer models to chief financial officers in need of sophisticated advice.

Every two months, for example, the top financial executive at one U.S. conglomerate runs his roster of $3 billion worth of derivative contracts through the model Swiss Bank uses to evaluate its own portfolios. The object: to find hidden risks he might not discover on his own. "This is the kind of analysis someone our size just doesn't have access to," says the CFO. "I've asked other banks—even J.P. Morgan—and they couldn't do it."

Despite such plaudits, more widespread gains are proving harder to come by—especially in the U.S. Swiss Bank's American investment banking ambitions had been held back while the Federal Reserve Board spent 17 months reviewing its application for permission to underwrite debt and equities. The Fed finally gave approval in December. Now, Blum is building. Even before the approval came through, the Swiss announced plans to shift most of their U.S. headquarters staff from New York to a 575,000-square-foot complex to be constructed in Stamford, Conn.

More big moves are likely. Senior bank executives, pointing to J.P. Morgan's decade-long successful drive to build a global investment bank, argue that one year of disappointing earnings is hardly enough reason for them to abandon their own quest. "We have redesigned the bank," says Ospel. What has emerged is a formidable combination of European capital and U.S. technology. Now comes Georges Blum's biggest challenge: making the redesign pay off.

By Bill Javetski in Basel and William Glasgall in New York, with Paula Dwyer in London and bureau reports

MARKETS

A FEW GLEAMS IN ISRAEL'S GLOOM

Amid the general uncertainty, high-tech stocks are recoveri

Just like the rest of the emerging-market world, Israeli stocks have been bummers. Disappointing earnings, disillusionment with the Mideast peace process, higher interest rates, and a wave of insider-trading scandals have roiled the Tel Aviv Stock Exchange. The result is that Israeli shares have crumbled some 40% since the market peaked at yearend 1993. And among the hardest hit were the 60-odd stocks of Israeli high-tech companies traded in the U.S. It's a sad spectacle, especially for the phalanxes of investors who have wagered on Israeli technical expertise.

ISRAEL'S DOWNTRODDEN STOCKS: POISED FOR A REBOUND?

But Israeli high-tech shares seem poised for a recovery in 1995. Until recently, many of the stocks were trading near their 52-week lows. But there's evidence market sentiment is turning. Value-hunting investors are snapping up Israeli high-tech shares. Favorable earnings news, once shrugged off by the market, now sends investors into a tizzy. A case in point: ECI Telecom Ltd., a telecommunications company whose shares soared 11% on Feb. 9 on reports of better-than-expected earnings.

Bank Hapoalim's index of 65 Israeli shares traded in the U.S.—59 of which are high-tech shares—is up by 10% since bottoming on Jan. 10, and the rally is probably not over. "So far, fourth-quarter earnings have been far better than initial predictions," says Hanna Pri-Zan, director of Bank Hapoa Ltd.'s securities unit.

One big drawing card for the Isr high-tech stocks is that, unlike m emerging market stocks, they are lar ly insulated from currency fluctuatio They are emphatically export-orien and report in dollars. "These days, t tend to be compared to their Ameri or European competitors and not stocks of other emerging marke notes David Rosenberg, research di tor at Pacific Mediterranean Inve ments, a Tel Aviv brokerage.

To be sure, the vagaries of Bank of Israel's exchange-rate icy have been a drag on the sto But monetary issues are likely be outweighed by the str growth in sales and the introd tion of new products by m companies.

BREAKING AWAY. Among the vorites of analysts and invest are Gilat Satellite Networks, a ducer of equipment for the r telephone market; Tower Semic ductors; and Teva Pharmaceut Industries Ltd., which has a multiple sclerosis drug and is a jor player in the U.S. generic-d market. Another star of the Israel h tech galaxy is Indigo, a world leade the digital printing industry that attracted investment by George So

The improved outlook for Israeli h tech companies has also led to a newed interest in initial public offeri in the U.S. after nearly a year of li activity. DSP Telecom, Paradigm G physical, and Telrad Telecommunicati are among the Israeli high-techs lool to tap the market soon.

Last year, Israeli stocks nose-di regardless of their fundamentals. renewed political stress will hurt market generally. But Israeli high-t companies seem to be breaking a for the Middle Eastern miasma and meanderings of Tel Aviv's volatile st market. The recent upturn is not actly manna from heaven—but, for it will have to do.

By Neal Sandler in Jerusa

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MARKETS & INVESTMENTS

LATIN DEBT: BAD RAP, GREAT PRICES

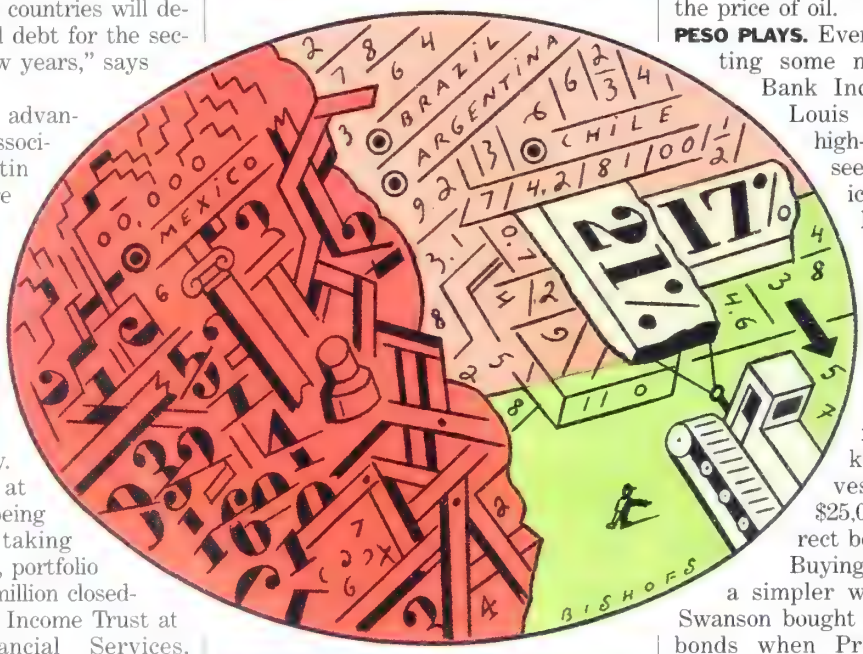
Some daring souls are starting to buy again

Jean-Marie Eveillard is going where few fund managers dare to tread: The president and portfolio manager of more than $2 billion in assets at Société Générale Asset Management Corp. is tiptoeing into Latin American debt. With yields on some debt issues as high as 30%, "one is being paid very nicely indeed for bearing the risk that some South American countries will default on their external debt for the second time in only a few years," says Eveillard.

Eveillard is taking advantage of the guilt by association that many Latin American countries are now suffering. Countries such as Argentina and Brazil are finding that the economic turmoil in Mexico has caused prices on much of their debt issues to plunge as lenders and investors grow wary. Eveillard says that at current prices, he is being well rewarded for taking risks. James Swanson, portfolio manager of the $784 million closed-end MFS Multimarket Income Trust at Massachusetts Financial Services, agrees, comparing the market to the "tremendous values" that investors found in the junk-bond market of 1990 and 1991. At current prices, many Latin American debt issues trade at barely 50¢ on the dollar.

"CHICKEN." The most popular investment is in so-called Brady bonds. These dollar-denominated bonds are a product of the Latin American debt crisis of the early 1980s. Rather than have U.S. and other foreign banks experience massive defaults on the sovereign debt of less developed countries, much of the debt was restructured into fixed-rate, longer-term bonds with principal backed by zero-coupon U.S. Treasuries. Not all Brady bonds are collateralized, however. Some are floating-rate, shorter-term bonds with yields up to 22%. Eveillard invests in both types: "I'm chicken," he says.

Argentine debt is the favorite of many fund managers looking to test the Latin American waters. The country has "one of the most conservative and disciplined monetary systems one can think of," says Eveillard. It is also not as reliant as Mexico on short-term refinancing in the foreign markets and does not have the same current-account deficit problems. Swanson, who has sunk about $50 million into Latin American debt in the last three weeks, recently bought the 8% Eurobonds of Argentine oil company YPF. "It takes its revenue in dollars, so even if Argentina gets into trouble, there's no reason to think that YPF will," he says.



RUSHED Right now, many Latin American debt issues are trading at barely 50¢ on the dollar.

Debt with a Brazilian flavor is the favorite of Steven Merrell, a fund manager at American Express Financial Corp. Merrell, who manages the $1.5 billion IDS Special Income Fund, says the country has been unfairly penalized by the devaluation of the Mexican peso. "After Dec. 21, when these bonds got beat up, we increased our weighting significantly," he says. He invests in Brady bonds in Brazil because the Brazilian corporate debt that he likes isn't liquid enough. Merrell has about 4.5% of his fund in Latin American debt.

Perhaps the highest yields can be found in Venezuela. But along with its 30% yields comes higher risk. Eveillard likes Venezuela "a little bit" because even though he feels the government has made many mistakes, Venezuela is a member of OPEC, and he's positive on the price of oil.

PESO PLAYS. Even Mexican debt is getting some nibbles: Mark Twain Bank Inc., a $2.5 billion St. Louis bank that caters to high-net-worth individuals, sees interest in the Mexican treasury-bill market. "The most activity has been in the one-year maturities because with yields of 47%, people want to lock these in," says Neil George, assistant vice-president for international markets at the bank. Investors have to invest $25,000 to make such a direct bet.

Buying into mutual funds is a simpler way into the market. Swanson bought more Mexican Brady bonds when President Clinton announced his bailout plan for Mexico and has been averaging into the market over the last three weeks. Merrell also bought into a Yankee bond recently—a bond issued in the U.S., in dollars, by a foreign issuer. He bought a chunk of the United Mexican States Yankee, a 1-year bond issued by the Mexican government that yields around 16%. "Some corporates will default," he says. "But the country itself won't."

Fund managers aren't betting the farm. Eveillard has $100 million, or 4% to 5%, of his funds in Brady bonds. His foray into the debt "is not without trepidation," he says. "But risk is not just a matter of the instrument you buy but the price you pay." And he and other pros think the price is right.

By Suzanne Woolley in New York

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CREDIT CARDS

PLASTIC: ARE BANKS OVER THEIR LIMIT?

Rising rates–and lots of cards in shaky hands–may be trouble

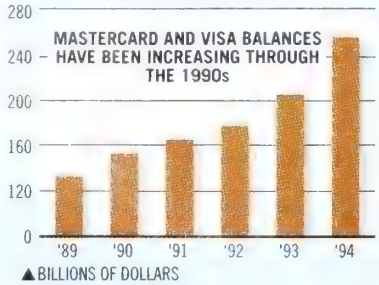
Credit-card holders have been on a buying binge that could lead to a big bust. Balances outstanding on Visa and MasterCard credit cards at the end of 1994 were a record $256 billion, up 24% from 1993's $206 billion. That growth far exceeds the 5.8% growth in consumer spending. Eager to grab market share in a lucrative, seemingly low-risk business, bankers and issuers of such less widely held cards as Discover and Optima have been cranking out alluring credit-card offers of low interest rates, no fees, and freebies such as frequent-flier miles.

Unfortunately for card issuers, though, the party could soon come to an end. Interest charges on many cards are rising with each rate hike by the Federal Reserve, making it harder for consumers to stay current. Rising rates also tilt the scales toward a recession, which has always meant more payment delays. Couple that with the huge balances and you have the makings of a pronounced increase in credit-card delinquencies. "We have no doubt that delinquencies and losses will rise from these levels," says Moshe A. Orenbuch, an analyst at Sanford C. Bernstein & Co. "The only question is the speed." Orenbuch and other experts think delinquency rates could peak at higher levels than in the 1990-91 recession, which led to $8 billion in card charge-offs in one year.

The recent blizzard of card offerings masks the looming problem. The number of U. S. cards has soared: Visa and MasterCards increased from 208.3 million in 1990 to 266.5 million at the end of 1993. The delinquency rate on those cards in early February was near a record low at 3.89% of receivables, according to RAM Research & Publishing Co.'s *Bankcard Barometer* newsletter. One reason is that new card accounts simply haven't had time to go bad.

That's likely to change. The February rate was slightly higher than early January's 3.85%. And, says Edward O. Bankole, a senior analyst at Moody's Investors Service, "as 1994 accounts start t age, we'll see delinquencies and losse start to trend up." That will continue a card accounts reach the peak delinque cy age of 1.5 to 2.5 years.

CHARGE!



DATA: VISA INTERNATIONAL, MASTERCARD INTERNATIONAL INC.

Meanwhile, the sheer volume of ne accounts will exacerbate the pain of car issuers. Some customers may even b stockpiling no-fee cards to tide the over during tough times, such as whe they're out of a job or maxed out o other cards. That's just the time issue don't want the cards used.

Consumers, further, are increasing using credit cards for things they use to buy with cash or checks. From supe markets to dentists, almost every typ of merchant now accepts credit card But if consumers routinely use card for necessities, they may have troub cutting back on charges even if the lose their jobs in a recession.

TEASERS. Rising rates on cards cou be another problem for issuers. Sco P. Marks Jr., executive vice-preside of First Chicago Corp. and head of i bank-card group, thinks banks are ta geting better customers, but "everyon in the industry expects upward pre sure on credit losses as interest rat ratchet up." Today, 72% of all standar cards have variable rates vs. 33% thr years ago, according to *Bankcard B rometer*. And many of those cards we issued at initial "teaser" rates below 9 that rise after a set period. One exa ple: Citibank offers an 8.9% initial ra for customers who transfer balances to Citibank card, but after a year the ra changes to prime plus 9.4%—or 18.4% today's rates.

Many bankers insist there's litt cause for alarm. Rates are not that b an issue, they say, and delinquenci are currently at such low levels that a increase would be easily manageab Aviad Broshi, senior vice-president a credit executive for Chase Manhatt Corp.'s credit-card business, says co sumers are making monthly payments excess of what's required, which su gests that they can handle higher inte est costs. Similarly, Bruce L. Ha monds, senior vice-chairman and chi operating officer of MBNA Corp., sa that while he expects delinquencies rise, "1994 was possibly our best ye ever, and now we're getting back normal."

Hammonds had better be right. Wi all the cards and all the debt out the the cost of being over-optimistic wou be heavy indeed.

By Kelley Holland in New York, wi Richard A. Melcher in Chicago

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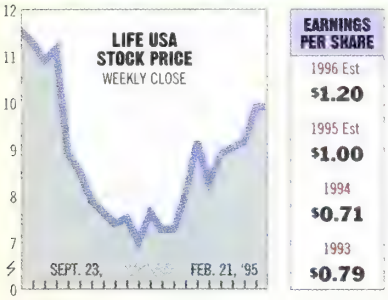
BY GENE G. MARCIAL

FOR LIFE USA, AN ALLIANZ ALLIANCE?

"The best thing about 1994," said Robert MacDonald, chairman and CEO of Life USA Holding (LUSA), "is that it's over." He made this remark in commenting on the insurance company's disappointing results. Indeed, 1994 was the year Life USA's shares tumbled nearly 50%, to 6⅝, as interest-rate hikes cut into earnings. Recently, the stock has rebounded to 10.

What gives? Two developments may fire up the stock: an expected surge in revenues and earnings, starting in the first quarter, and takeover buzz.

WAITING TILL THE MID-TEENS



▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS, STRATEGIC INVESTING

With its own specialties—annuities and universal life insurance—"Life USA has developed a niche market in the fastest-growing segment of the industry: the 60% of the population who wish to save for retirement but aren't covered by an employer-sponsored retirement plan," notes Richard Geist, editor of *Geist's Strategic Investing* in Newton, Mass. He believes the first-quarter sales and earnings jump will be even bigger than most analysts expect. So annual revenues for 1995, he says, should rise to $1.3 billion from 1994's $950 million. And profits should leap to $20 million, or $1 a share, from $14.1 million, or 71¢ a share.

But more exciting is speculation that Allianz Life Insurance of North America, which has acquired a $30 million stake in Life USA, wants to buy the company. Inside sources say Life USA's brass fended off a purchase—because of the stock's drop from its high last year of 20—and agreed on Feb. 21 to just a joint marketing venture.

With stronger results expected this year, Life USA's management opted instead for Allianz' purchase of 15-year convertible subordinated debentures. Allianz, according to the agreement, may convert the debentures into stock at 12½ a share during the first five years. That would give Allianz 2.4 million shares, or some 10% of Life USA.

Takeover pros are betting that once the stock price reaches the mid-teens, Life USA will agree to sell the company at 20 a share. "In all likelihood, the stock will hit 15 to 17 sometime this year—after Wall Street wakes up to the resurgence in earnings," says Geist.

Allianz' ardor for Life USA is focused on its marketing strength: Life USA has over 61,000 independent agents. In signing the joint marketing venture with Life USA, Allianz Chairman Lowell Anderson said he was eager to benefit from Life USA's sales network. Life USA's MacDonald says he would listen to any buyout offer, but he claimed there hadn't been any "serious talks with Allianz about an offer."

THE FUTURE LOOKS GREEN AT FUEL TECH

The environment isn't looking too healthy for battered pollution stocks, now that some Republicans want to take the teeth out of environmental laws. So why are big investors snapping up shares of Fuel Tech (FETKF), which has developed proprietary air-pollution-control technologies?

Despite the bleak outlook, Fuel Tech is in the midst of a turnaround. In the red since 1990, it is expected to report breakeven results for 1994. And for this year, Oppenheimer analyst Leah Rush Cann sees Fuel Tech in the black, with earnings of 18¢ a share. A bigger kicker will come next year, when she foresees earnings of $1.20. That's probably why some big investors have not bailed out of Fuel Tech—including a major British insurer, Friends' Provident Life Office, which holds 5%.

What's so hot about Fuel Tech? Investors are betting big on its NoxOut process, which reduces oxides from utility boilers and industrial furnaces. The company, which invested $70 million to develop the process, has formed a joint venture with Nalco Chemical, the largest U.S. wastewater treatment company, to market NoxOut.

Worries about what Congress might do about the Clean Air Act have depressed Fuel Tech shares. They're currently trading at 5, down from nearly 10 in September. But as NoxOut production ramps up, the impact on earnings should be substantial, says one money manager who has been buying. The market for NoxOut is expected to reach $3 billion a year over the next five years, he says.

GENERATING JUICE A NEWFANGLED WAY

Mention the name Energy Research (ERCC), and you might get a blank stare even from investment pros. "It's a global leader in electrochemical technology for generating electric power and storing energy, yet Wall Street hardly knows it exists," says Rick Teller of Josephthal Lyons & Ross in Boston. He thinks the stock, trading at nearly 10, is a sleeper that could triple in two years.

Here's why: Teller says some important players have put big money in Energy Research. German auto giant Daimler Benz, Japan's Sanyo Electric, and Pacific Gas & Electric all have acquired 10% stakes. Daimler has put together a group that has committed $90 million to developing Energy Research's "fuel-cell" technology. The idea is to come up with a cheaper, simpler, less toxic, and more efficient way of generating electricity.

SET FOR A SURGE

▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS

In the U.S., some 40 utility companies have formed the Fuel Cell Commercialization Group to help finance a two-megawatt plant that Energy Research is building in Santa Clara, Calif. In December, the Energy Dept. joined in by signing a five-year pact with Energy Research to develop a commercial carbonate fuel cell. The agency will provide $78 million for the $136 million project.

Direct fuel-cell plants produce power electrochemically, in much the same way a battery does. Teller says Energy Research stock could well surge, once a demonstration model of the fuel cell is successfully tested in Santa Clara.

OTBALL

HE LONG, MUDDY FIELD HEAD OF MARC LORY

ill the World League work, even with a ringer named Rupert?

ive years ago, Marc G. Lory thought he had reached the end of his rope. He and eight buddies had led Alaska's Mt. McKinley, but on descent, a sudden snowstorm pped them for four days and three hts. With 80-mile-an-hour winds, zero ibility, and no landing strip, rescue air seemed out of the question. Food l fuel supplies were running low. Whenever the storm receded, the up tamped down snow with skis to ke a runway. They outlined the strip h snow-filled garbage bags. As an erienced pilot, Lory was able to calate their position and, at the storm's t break, radio in a rescue plane. ey were lifted out within hour. "It was the st frightening, l thrilling, expence of my life," s Lory.

TTY EFFORT? Exience quarterking a rescue will e in handy at Lory's new . The National Football gue and joint-venture part- Fox Inc. have hired Lory, a year-old Frenchman with an A from the University of cago and a reputation as a shot marketer, to revive the rld League of American otball, which kicks off again Apr. 8 with a 10-game sea- . The league had a nearth experience of its own: Its vious effort ended in the lst of Europe's 1992 reces- after just two seasons of y and $50 million in losses. Reviving the league now y seem dotty. But American ball has thousands of fans Europe. Amateur leagues e sprouted all across the ntinent: Germany alone has clubs. Average attendance six London World League nes in 1991 was 45,700. Tickales for the American Bowl, l every August in London between the Super Bowl champs and another NFL team, have never dipped below 43,500. The NFL this year will sell $250 million worth of merchandise in Europe, about the same as the National Basketball Assn., says Nick Price, NFL Properties Inc.'s European director.

There are other reasons why this goround is more likely to succeed: a threeyear startup fund of $40 million from the NFL and Rupert Murdoch's Fox Sports, for one. A salary cap, for another: Players will receive bare-bones salaries of $15,000 for the season (quarterbacks will get $20,000). Total annual outlay for player salaries: less than $4 million. There will be no U.S.-based teams this time, just European ones. And each roster of 40 will have 7 local players—often soccer or rugby heroes—and 33 American gridders who didn't make the cut for the NFL.

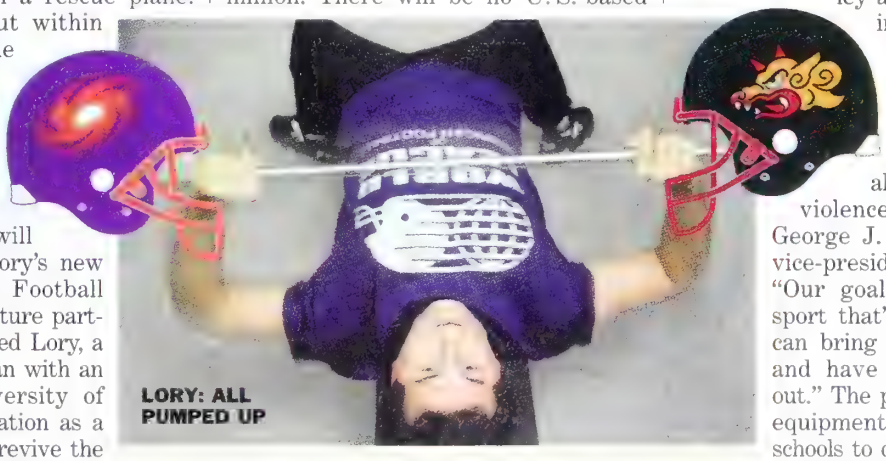
Also working in Lory's favor: Europe's media business, which has undergone a sea change since the last World Football foray. Television is no longer dominated by governments or limited to terrestrial channels. Most countries now have cable and satellite TV and new commercial broadcasters hungry for programming.

Lory, the man who turned Vuarnet eyewear into a fashion statement by sponsoring on-the-edge athletic events, plans to use his marketing acumen to make football an entertainment extravaganza, with rock bands at halftime, fireworks, and cheerleaders. "That's what sports is all about—entertainment and sponsorship," says Lory. "People will pay for American culture and entertainment. We'll be part of the globalization of sport." His model is the NBA, which has successfully promoted its image overseas and turned Charles Barkley and Shaquille O'Neal into teen idols from Bombay to Budapest (BW—Dec. 5).

MTV IMAGE. Lory's strategy is to sell football as a "safe" alternative to the fan violence of soccer. Says George J. Krieger, executive vice-president of Fox Sports: "Our goal is to introduce a sport that's safe and fun. You can bring your wife and kids and have a wonderful night out." The plan includes making equipment available to grade schools to drum up interest and sponsoring flag football contests for youth clubs. Lory also hopes to package football with music to attract the MTV generation. He and MTV Europe President Peter L. Einstein are talking about how they can give the World League "more of an MTV image."

"The market is ready for American football," says Lory. "People want it. It's an enormous force, like a tidal wave building up." That may sound like hype, but if Lory's game plan lives up to his pep talk, the World League should take off. By the way, how do you say "tailgate party" in Dutch?

By Paula Dwyer in London



LORY: ALL PUMPED UP

MARTYN GODDARD

Watch Out Europe, Here Comes American Football...Again

AMSTERDAM ADMIRALS will play in 38,000-seat Olympic Stadium. Amsterdam also has a 15-team amateur league.

BARCELONA DRAGONS will play in 54,000-seat Montjuic Olympic Stadium; coached by a former Boston College coach.

DUSSELDORF RHEIN FIRE will play in the 57,000-seat Rheinstadion. Germans already are big American football fans, with 228 amateur teams.

FRANKFURT GALAXY will play in Waldstadion; managed by Oliver Luck, former Houston Oilers quarterback.

LONDON MONARCHS will play in a north London soccer stadium; will be run by a former Reebok marketing manager.

SCOTTISH CLAYMORES will play in Edinburgh's 67,000-seat Murrayfield. Team will include local pro rugby stars.

HOT DAMN, WHAT A YEAR!

The economy sizzled, cost-cutting kicked in–and profits zoomed

Whoo-ee. It was one for the record books. Thanks to a robust economy and a strong dose of corporate cost-cutting, 1994 turned out to be the best year for company earnings in more than two decades. Profits for the 900 companies on BUSINESS WEEK's Corporate Scoreboard leaped by a stunning 40% last year—the biggest increase since BUSINESS WEEK began compiling industry data in 1973. Fourth-quarter profits jumped by an equally impressive 71%, the largest quarterly hike in six years.

These astonishing results provide th most convincing evidence so far that th painful restructuring of the past fe years has produced profound change throughout Corporate America. Lowe operating costs—including restraine wage hikes—have combined with techn

The Leaders in 1994 Sales and Profits

THE TOP 25 IN SALES

	1994 SALES IN MILLIONS	PERCENT CHANGE FROM 1993	1993 RANK
1 GENERAL MOTORS	$154,951	12%	1
2 FORD MOTOR	128,439	18	2
3 EXXON	101,092	2	3
4 WAL-MART STORES	78,407	22	4
5 AT&T	75,094	8	5
6 MOBIL	67,111	5	8
7 IBM	64,052	2	6
8 GENERAL ELECTRIC	60,109	8	7
9 SEARS	53,920	6	9
10 PHILIP MORRIS	53,776	6	10
11 CHRYSLER	52,200	20	11
12 DUPONT	39,333	6	12
13 KMART	36,109	7	14
14 CHEVRON	35,844	–3	13
15 TEXACO	33,353	2	15
16 PROCTER & GAMBLE	31,572	5	17
17 CITICORP	28,968	0	16
18 PEPSICO	28,472	14	20
19 AMOCO	26,979	5	19
20 HEWLETT-PACKARD	24,991	23	24
21 CONAGRA	24,004	7	22
22 ITT	23,620	12	21
23 KROGER	22,959	3	23
24 MOTOROLA	22,245	31	36
25 BOEING	21,924	–14	18

THE TOP 25 IN EARNINGS

	1994 PROFITS IN MILLIONS	PERCENT CHANGE FROM 1993	1993 RANK
1 GENERAL ELECTRIC	$5,915	41%	2
2 GENERAL MOTORS	5,659	129	6
3 FORD MOTOR	5,308	110	5
4 EXXON	5,100	–3	1
5 PHILIP MORRIS	4,725	32	4
6 AT&T	4,710	27	3
7 CHRYSLER	3,713	54	7
8 CITICORP	3,422	78	17
9 IBM	3,021	NM	994
10 MERCK	2,997	38	12
11 DUPONT	2,727	382	89
12 COCA-COLA	2,554	17	11
13 WAL-MART STORES	2,519	14	9
14 GTE	2,451	148	46
15 PROCTER & GAMBLE	2,430	301	78
16 INTEL	2,288	0	10
17 BANKAMERICA	2,176	11	16
18 BELLSOUTH	2,160	109	44
19 FANNIE MAE	2,141	5	14
20 JOHNSON & JOHNSON	2,006	12	20
21 BRISTOL-MYERS SQUIBB	1,842	–6	15
22 AMOCO	1,789	–2	19
23 PEPSICO	1,784	12	23
24 MOBIL	1,759	–16	13
25 NATIONSBANK	1,690	30	32

DATA: STANDARD & POOR'S COMPUSTAT, A DIVISION OF McGRAW-HILL INC.

NM = Not meaningf

cal improvements to yield huge pro-
tivity gains. The upshot: Profit mar-
s widened sharply, to 5.7% last year
n 4.3% in 1993. Margins haven't
ted this healthy since 1988.
And much of the improved cash flow
s fed back into the economy. Thanks
part to huge capital spending on plants
equipment, total sales climbed 11%
he fourth quarter; for the year, they
re up 9%. Such growth hasn't been
n since the prerecession days of 1989.
o contributing to the spending spree:
ewed confidence in the economy. After
wing by 3.1% in 1993, gross domestic
duct expanded by 4% last year.
Few economists see profits growing
such a pace in 1995, although perfor-
nces will vary widely from industry to
ustry (page 100). A slower economy
likely trim profit gains. BUSINESS
EEK economists believe GDP will prob-
y grow by about 2.5% this year. Still,
ny believe the level of corporate in-
tment will remain high. Many also
ect an eventual uptick in wages.
ile that could squeeze margins, wage
es would fuel consumer spending.
ofit growth will be there, but it's not
ng to be 40% or even close to it,"
s Douglas P. Handler, a senior econo-
t at Dun & Bradstreet Corp.

EUROPEAN PICKUP. General Electric
ded the list of BUSINESS WEEK'S Top
earners in 1994. Excluding huge loss-
from discontinued operations at its
der, Peabody & Co. unit, GE's earn-
s climbed by 41%, to $5.9 billion, as
es rose 8%, to $60.1 billion. The com-
y's cyclical businesses, such as appli-
es and plastics, thrived along with
economy. GE Financial Services also
spered, especially because of the
ong performance of such businesses
credit cards and retail financing.
General Motors and Ford Motor were
e behind GE, in second and third
e, respectively. Why the great year in
own? Consumers were so eager to
behind the wheel that carmakers
ld raise prices and cut rebates. Also
oing out was the strong yen, which
de Japanese cars relatively more expensive. GM saw profits surge 129%, to $5.7 billion, as sales rose 12%, to $155 billion. Meanwhile, Ford's profits increased 110%, to $5.3 billion. Chrysler Corp., No. 7 on the Top 25 list, saw its profits climb 54%, to $3.7 billion.

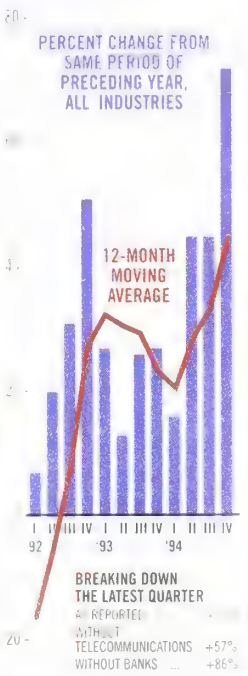
Don't expect the Big Three to maintain 1994's breathless profit pace. There are signs sales growth is slowing. Still, Bear Stearns & Co. analyst Matthew T. Stover sees moderately higher profits this year, with European sales offsetting weaker growth for GM and Ford at home.

As an industry, computer makers showed the biggest profit improvement in 1994. Credit IBM's sharp turnaround, which also had a big impact on the entire Scoreboard. If it wasn't for IBM climbing out of the red, the Scoreboard would have shown a 33% profit gain. Big Blue earned $3 billion last year, compared with a loss of $8 billion in 1993. Sales were up 2%, to $64 billion. Analysts attribute the computer giant's recovery to extensive restructuring, modest revenue growth, and new-product development. "Those three trends should continue into about the middle of 1996," says John B. Jones, a technology analyst at Salomon Brothers Inc. He sees IBM's earnings rising at least 40% to 50% this year.

Apple Computer Inc. was also back in the black. The company posted profits of $458 million in calendar 1994 vs. a $34.7 million loss in the previous 12 months. Credit goes to strong demand for Apple's Power Macintosh. The sector also had its share of disappointments:

A Spotlight on 1994 Profits

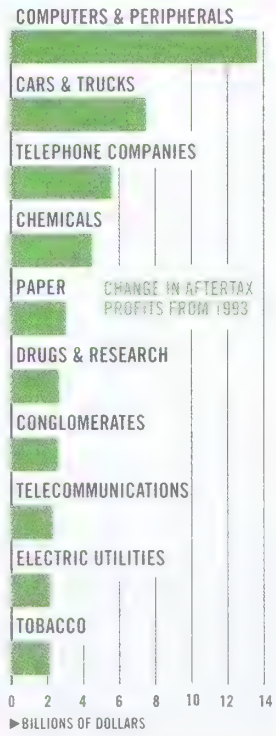
AFTERTAX PROFITS, QUARTER BY QUARTER



DATA: STANDARD & POOR'S COMPUSTAT

Computer makers led the way in 1994, with IBM earning $3 billion after losing $8 billion the previous year. GM and Ford each more than doubled their profits. On the downside: Banks and brokerages were hurt by trading losses and currency problems. But Citicorp managed to increase earnings by 78%, to $3.4 billion.

INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN 1994



It wasn't fat city all over: The economy didn't have enough muscle to lift Wall Street or retailers

Digital Equipment lost $2.1 billion in 1994 after a $1.2 billion charge for restructuring. DEC lost $92.3 million in 1993.

Telecommunications companies also fared well. A few Baby Bells showed the biggest improvements, by far, over 1993, a year of heavy write-offs related to downsizing. Pacific Telesis Group's profits soared 495%, to $1.1 billion, on flat sales. Long-distance carriers also had a good year, thanks to popular discount calling programs. AT&T and MCI Communications Corp. each posted a 27% earnings gain, to $4.7 billion and $795 million, respectively.

Despite its strength, the economy didn't have enough muscle to lift Wall Street last year. Rising interest rates devastated the stock and bond markets in the latter part of the year; a downturn in trading and underwriting volume also hurt. The sour environment was most keenly felt at Salomon Brothers, which lost $364 million vs. an $864 million profit in 1993.

Retailers also suffered, with profits falling 9%, to $10.1 billion, as women's ap parel sales stayed sluggish. But it wasn retailing that hurt Sears, Roebuck & Co where profits plunged 48%, to $1.3 billio Much of the drop reflected falling earn ings at its Allstate Insurance Co. un after the California earthquake. Profits Sears Merchandise Group rose 18%, $890 million, thanks to strong applianc sales—and a lot of cost-cutting. Now th it's in fighting trim, Sears, along wit the rest of Corporate America, is enjo ing the payoff as never before.

By Lori Bongiorno in New Yo

RELAX. EARNINGS WILL BE BETTER THAN YOU THINK

Is the party over? The Federal Reserve, which has raised interest rates seven times over the past year, should finally reach its goal of slowing the economy in 1995. With BUSINESS WEEK forecasters expecting the economy's growth rate to cool to 2.5% this year from the surprisingly strong 4% in 1994, overall corporate profits are likely to be squeezed. More restrained consumer and business spending will hold down revenue gains, while slightly higher labor bills will begin to put pressure on costs.

But it's by no means certain that the new economic environment will have the chilling across-the-board impact that Corporate America fears. True, many companies won't be able to downshift smoothly. But keep in mind that 2.5% growth is nothing to sneer at. What's more, a host of industries will continue to prosper regardless of the tighter monetary policy (table).

Computer software and telecommunications should weather the new climate with hardly a hair out of place, say analysts. Even though the pace of capital spending will slow, corporations are still expected to make huge purchases of high-tech equipment as they seek to improve productivity.

Surprisingly, cyclical industries, the traditional victims of slower growth, are also expected to do well. Many economists believe rebounding economies in Europe and Asia will continue to fuel demand for everything from paper products to chemicals—offsetting the anticipated downturn at home. Morris Cohen, an economic consultant in Hackensack, N.J., is particularly optimistic about machine tools because of the European recovery. "A big gain in exports should help to offset a drag in domestic orders" especially from auto makers, he says.

FEWER SOFAS. And with aggregate demand healthy, some experts believe that many U.S. companies will be able to raise their prices and preserve the profit margins they have so painfully acquired in recent years. "There won't be a slowing in profit margins," says James R. Solloway, director of research at Argus Research Corp., "only a slowing in their growth rate."

Of course, not every sector will thrive in the year ahead. Businesses that produce big-ticket consumer goods are the most vulnerable. Already, retail sales of autos and furniture fell in January. Homebuilding, too, is slowing. As a result, analysts at Standard & Poor's Corp. are down on industries that feed materials to these sectors: Cuts in auto and truck output reduce the demand for the lead that fills car batteries. Weaker housing sales mean fewer consumers are buying sofas, carpeting, and La-Z-Boys. That pinches demand for textiles, 37% of which are used in home furnishings.

The Fed's tightening will also hit services. Truckers and wholesalers that distribute consumer goods will struggle to stay on their feet this year. So will financial services, especially if short-term interest rates go higher. That means 1995 will not bring all good news for corporate planners, but the soft landing won't clip everyone's wings, either.

By Kathleen Madigan in New York

What's Ahead in 1995

Some industries should still enjoy plum profits this year, while the economic slowdown will prune the earnings of others. Here's how they stack up:

PLUMS
BIOTECH
FOOD PROCESSORS
TELECOMMUNICATIONS
SOFTWARE
SPECIALTY CHEMICALS
PRUNES
FOOD AND DRUG WHOLESALERS
METALS (LEAD, ZINC, NICKEL)
METAL AND GLASS CONTAINERS
TEXTILES
TRUCKING

DATA STANDARD & POOR'S CORP

Fourth Quarter & Full Year 1994

CORPORATE SCOREBOARD

lossary

LES: Includes all sales and ner operating revenues. For nks, includes all operating venues.

OFITS: Net income before traordinary items. For banks, profits are net income after security gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON COMMON EQUITY: Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity, which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on Feb. 10, 1995, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

EARNINGS PER SHARE: For most recent 12-month period. Includes all common-stock equivalents.

COMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	4TH QUARTER 1994 %	4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
LL-INDUSTRY COMPOSITE	**1179554.2**	**11**	**4416362.7**	**9**	**66813.6**	**71**	**252279.4**	**40**	**5.7**	**3.7**	**15.9**	**16**	**2.37**
AEROSPACE & DEFENSE													
NDUSTRY COMPOSITE	**24447.4**	**–1**	**92684.6**	**–3**	**682.8**	**10**	**3421.9**	**0**	**2.8**	**2.5**	**13.1**	**14**	**3.60**
OEING	5120.0	–9	21924.0	–14	157.0	–48	856.0	–31	3.1	5.4	8.9	19	2.51
ENCORP (1)	495.7	–6	1739.5	–9	–30.4	NM	–13.0	NM	NM	2.2	–50.8	NM	–0.41
ENERAL DYNAMICS	724.0	–7	3058.0	–4	58.0	–9	223.0	–17	8.0	8.2	17.4	13	3.51
OCKHEED	3844.0	3	13130.0	0	137.0	1	445.0	5	3.6	3.6	16.5	11	7.00
ARTIN MARIETTA	2785.9	–13	9873.7	5	139.5	18	635.6	41	5.0	3.7	25.4	8	6.00
cDONNELL DOUGLAS	3512.0	–3	13176.0	–9	165.0	NM	598.0	67	4.7	NM	15.7	11	5.05
ORTHROP GRUMMAN	1880.0	50	6711.0	33	–121.0	NM	35.0	–64	NM	NM	2.5	58	0.72
OHR (5)	192.2	–19	873.2	21	1.4	–76	0.3	NM	0.7	2.4	0.2	NM	0.02
HIOKOL (6)	218.6	–9	1002.3	–9	11.3	–24	57.1	–12	5.2	6.1	14.6	9	2.97
NITED TECHNOLOGIES	5675.0**	3	21197.0	1	165.0	21	585.0	20	2.9	2.5	14.4	15	4.40
AUTOMOTIVE													
NDUSTRY COMPOSITE	**104766.7**	**18**	**389879.5**	**16**	**4568.9**	**47**	**16713.6**	**89**	**4.4**	**3.5**	**31.1**	**6**	**5.14**
) CARS & TRUCKS													
ROUP COMPOSITE	**93062.7**	**18**	**345180.1**	**16**	**4409.2**	**61**	**14986.1**	**106**	**4.7**	**3.5**	**35.3**	**6**	**6.08**
HRYSLER	14200.0**	19	52200.0	20	1168.0	50	3713.0	54	8.2	6.5	40.2	5	10.11
IRD MOTOR	33643.0	21	128439.0	18	1569.0	118	5308.0	110	4.7	2.6	25.1	5	4.97
ENERAL MOTORS	42553.3**	14	154951.0	12	1572.1	34	5658.6	129	3.7	3.2	55.5	6	6.20
AVISTAR INTERNATIONAL (2)	1553.0	19	5305.0	13	43.0	95	102.0	NM	2.8	1.7	12.7	16	0.99
ACCAR	1113.5**	24	4285.1	27	57.1	26	204.5	44	5.1	5.1	16.7	8	5.26
) PARTS & EQUIPMENT													
ROUP COMPOSITE	**7948.5**	**22**	**30357.4**	**19**	**–43.4**	**NM**	**938.0**	**7**	**NM**	**3.2**	**12.8**	**15**	**1.94**
RVIN INDUSTRIES	515.6	15	2039.8	10	–46.3	NM	–17.4	NM	NM	2.2	–3.9	NM	–0.78
UMMINS ENGINE	1277.6	14	4737.2	12	70.2	33	252.9	39	5.5	4.7	25.1	7	6.11
NA	1733.9	19	6762.5	21	59.6	69	228.2	78	3.4	2.4	24.3	10	2.31
ETROIT DIESEL	424.6	8	1662.5	7	10.1	36	36.1	74	2.4	1.9	13.3	15	1.52
ITON	1605.0	44	6052.0	38	89.0	197	333.0	85	5.5	2.7	20.7	11	4.40
HLIN (4)	600.6	20	2330.8	18	31.8	32	128.8	31	5.3	4.8	15.4	16	2.19
DERAL-MOGUL	515.5	31	1895.9	20	11.8	62	63.3	58	2.3	1.9	10.0	13	1.55
ASCOTECH	440.6	12	1702.3	8	–305.9	NM	–234.4	NM	NM	4.7	–37.0	NM	–4.20
ODINE MFG. (9)	240.5	40	863.8	39	17.4	64	60.0	44	7.2	6.2	20.4	15	1.96
MITH (A. O.)	350.8	13	1373.5	15	13.6	49	57.3	34	3.9	2.9	18.3	8	2.75
TANDARD PRODUCTS (6)	243.8	23	937.1	14	5.3	–14	30.2	–6	2.2	3.1	12.3	12	1.81
) TIRE & RUBBER													
ROUP COMPOSITE	**3755.5**	**11**	**14342.0**	**7**	**203.2**	**24**	**789.5**	**18**	**5.4**	**4.9**	**20.7**	**12**	**3.02**
NDAG	183.6	15	650.6	10	27.6	20	94.0	19	15.0	14.4	21.6	17	3.51
OPER TIRE & RUBBER	361.3	23	1403.2	18	39.1	40	128.5	26	10.8	9.4	20.5	18	1.54
OODYEAR TIRE & RUBBER	3210.5	10	12288.2	6	136.5	21	567.0	16	4.3	3.9	20.6	10	3.75

Fourth quarter ended Nov. 30. (2) Fourth quarter ended Oct. 31. (3) First quarter and most recent 12 months ended Dec. 31. (4) First quarter and most recent 12 months ended Nov. 30. (5) First quarter and most recent months ended Oct. 31. (6) Second quarter and most recent 12 months ended Dec. 31. (7) Second quarter and most recent 12 months ended Nov. 30. (8) Second quarter and most recent 12 months ended Oct. 31. (9) rd quarter and most recent 12 months ended Dec. 31. (10) Third quarter and most recent 12 months ended Nov 30. (11) Third quarter and most recent 12 months ended Oct. 31. (12) Fourth quarter ended Jan. 31. ales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. †Revenues from some major subsidiaries not included in sales. Earnings per share are for latest 12 months, not essarily for end of most recent fiscal year. NA = not available. NM = not meaningful.

DATA: STANDARD & POOR'S COMPUSTAT SERVICES, A DIVISION OF McGRAW-HILL INC.

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	SALES CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	SALES CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	PROFITS CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	PROFITS CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
3 BANKS													
INDUSTRY COMPOSITE	56484.9	9	215772.1	7	6924.3	0	29037.9	12	12.3	13.4	15.7	9	4.09
(A) BANKS - EAST													
GROUP COMPOSITE	26665.5	4	104539.6	6	2945.1	–9	12771.0	14	11.0	12.6	15.9	8	4.56
BANK OF BOSTON	1230.0	43	4316.5	32	120.8	18	441.9	61	9.8	11.9	15.4	8	3.79
BANK OF NEW YORK	1122.0	25	4083.0	15	201.0	28	749.0	34	17.9	17.5	17.6	8	3.92
BANKERS TRUST NEW YORK	1750.0	13	6526.0	12	101.0	–64	615.0	–43	5.8	18.0	13.6	9	7.17
BAYBANKS	233.2**	18	865.1	10	30.7	35	108.4	60	13.2	11.5	14.2	10	5.65
CHASE MANHATTAN	2619.0**	-14	11187.0	–2	229.0	–27	1205.0	159	8.7	10.3	15.3	6	5.87
CHEMICAL BANKING	3281.0**	5	12685.0	2	179.0	–48	1294.0	–18	5.5	11.1	12.4	9	4.64
CITICORP	6779.0	-11	28968.0	0	1042.0	81	3422.0	78	15.4	7.6	24.0	6	7.15
CORESTATES FINANCIAL	664.2**	10	2497.1	3	111.5	18	248.8	31	16.8	15.6	11.3	17	1.75
FIRST FIDELITY BANCORPORATION	654.4	10	2492.8	4	115.6	11	451.1	14	17.7	17.6	16.2	9	5.21
FLEET FINANCIAL GROUP	1047.7**	1	4171.4	1	165.2	21	612.9	26	15.8	13.1	19.5	9	3.75
INTEGRA FINANCIAL	277.9	3	1063.7	0	39.1	5	169.1	11	14.1	13.9	18.3	8	5.01
MELLON BANK	1061.0**	13	3957.0	9	41.0	–70	433.0	–6	3.9	14.7	9.6	15	2.42
MIDLANTIC	269.8**	9	1052.1	5	77.2	31	279.1	112	28.6	23.8	21.9	6	5.18
MORGAN (J. P.)	2369.0	29	8379.0	13	193.0	–51	1215.0	–29	8.1	21.4	13.2	11	6.02
PNC BANK	1231.7	23	4722.6	22	28.5	–83	610.1	–18	2.3	17.1	13.8	9	2.57
REPUBLIC NEW YORK	656.9**	25	2347.2	13	89.4	12	340.0	13	13.6	15.2	15.5	8	5.79
SHAWMUT NATIONAL	602.4	12	2251.2	6	93.5	–36	237.4	–16	15.5	27.1	11.4	11	1.87
STATE STREET BOSTON	522.8**	28	1885.8	23	53.3	12	207.4	15	10.2	11.6	17.1	12	2.70
UJB FINANCIAL	293.5	17	1089.2	3	34.3	39	131.9	68	11.7	9.8	12.3	11	2.38
(B) BANKS - MIDWEST													
GROUP COMPOSITE	12330.8	12	46615.5	8	1576.8	1	6976.9	5	12.8	14.2	16.4	10	3.02
BANC ONE	1838.9**	–5	7857.1	3	64.4	–79	1005.1	–14	3.5	15.6	13.1	12	2.42
BOATMEN'S BANCSHARES	557.2	15	2087.2	9	92.0	19	355.3	12	16.5	15.9	16.1	9	3.40
COMERICA	666.5	25	2419.2	15	96.6	7	387.2	14	14.5	16.9	16.2	8	3.28
FIFTH THIRD BANCORP	314.5	18	1177.8	13	64.7	20	244.5	19	20.6	20.3	17.5	13	3.80
FIRST BANK SYSTEM	546.4	15	2021.9	5	110.5	15	419.8	41	20.2	20.1	18.5	11	3.57
FIRST CHICAGO	1326.7	30	4673.2	18	173.4	0	689.7	–14	13.1	17.0	16.3	7	7.04
FIRST OF AMERICA BANK	504.8**	13	1879.9	5	52.6	–20	220.5	–11	10.4	14.7	14.7	9	3.69
FIRSTAR	331.3	14	1219.3	6	56.1	7	207.7	2	16.9	18.0	15.9	9	3.22
HUNTINGTON BANCSHARES	318.9**	1	1219.7	–1	52.5	–17	242.6	2	16.5	20.2	17.3	10	1.87
KEYCORP	1383.5**	9	5257.8	4	193.8	58	853.5	20	14.0	9.7	18.4	8	3.45
MARSHALL & ILSLEY	309.7**	4	1178.8	1	48.1	10	94.4	–45	15.5	14.6	9.0	22	0.95
MERCANTILE BANCORPORATION	267.0**	5	1023.3	–1	40.9	150	161.0	35	15.3	6.5	15.4	10	3.74
NATIONAL CITY	758.2	13	2786.5	8	111.4	8	429.4	6	14.7	15.4	16.9	10	2.70
NBD BANCORP	937.0**	23	3399.4	10	141.5	19	547.3	14	15.1	15.6	16.8	9	3.45
NORTHERN TRUST	393.5**	24	1478.5	17	40.1	–7	182.2	9	10.2	13.6	16.1	11	3.17
NORWEST	1641.6**	12	6061.1	9	204.9	84	800.4	31	12.5	7.6	22.2	10	2.45
OLD KENT FINANCIAL	235.1**	17	874.8	8	33.4	10	136.1	6	14.2	15.1	15.9	9	3.35
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	9525.1	17	35209.9	15	1238.2	9	5055.0	17	13.0	14.0	15.6	9	4.33
AMSOUTH BANCORPORATION	322.5**	20	1226.8	17	1.4	–96	127.3	–13	0.4	11.5	NA	13	2.25
BANPONCE	271.3**	19	1008.1	14	32.6	16	124.7	21	12.0	12.3	13.6	8	3.67
BARNETT BANKS	812.8	8	3082.2	–1	125.4	11	488.0	16	15.4	15.0	16.5	9	4.79
CRESTAR FINANCIAL	274.4	12	1064.5	10	42.4	9	169.1	20	15.4	15.7	15.0	9	4.47
FIRST UNION	1687.8**	15	6219.5	10	231.5	19	925.4	13	13.7	13.3	15.4	9	4.98
NATIONSBANK	3524.0**	19	12910.0	26	405.0	9	1690.0	30	11.5	12.6	15.8	8	6.12
REGIONS FINANCIAL	244.4	43	897.0	36	37.2	33	145.9	30	15.2	16.4	14.4	10	3.40
SIGNET BANKING	358.0	21	1303.2	18	42.9	–14	149.8	14	12.0	16.9	13.5	13	2.59
SOUTHTRUST	363.4**	26	1293.4	17	45.4	15	173.0	15	12.5	13.7	15.3	10	2.15
SUNTRUST BANKS	860.6*	13	3238.6	6	132.3	11	522.7	10	15.4	15.6	14.8	12	4.37
WACHOVIA	805.9**	16	2966.7	9	142.1	16	539.1	10	17.6	17.7	16.8	11	3.13
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	7963.6	13	29407.1	5	1164.2	19	4235.1	14	14.6	13.9	14.4	10	5.39
BANCORP HAWAII	244.6	9	932.4	3	17.2	–52	117.7	11	7.0	15.9	12.0	10	2.75
BANKAMERICA	4272.0	18	15324.0	5	591.0	19	2176.0	11	13.8	13.7	12.2	9	5.36
FIRST INTERSTATE BANCORP	1097.9	15	4118.9	8	211.3	36	733.5	31	19.2	16.2	22.7	9	8.71
FIRST SECURITY	259.5	25	959.1	20	35.0	66	140.1	23	13.5	10.1	15.8	9	2.81
U. S. BANCORP	500.8**	–5	1969.1	2	65.9	–2	151.5	–41	13.2	12.7	8.6	18	1.40
UNION BANK	310.8	14	1138.6	1	28.9	132	75.3	–9	9.3	4.6	5.8	19	1.80
WELLS FARGO	1278.0**	4	4965.0	2	215.0	13	841.0	37	16.8	15.5	22.6	11	14.78
4 CHEMICALS													
INDUSTRY COMPOSITE	35952.5	16	136389.8	9	2321.1	172	8519.3	119	6.5	2.7	18.3	16	2.63
AIR PRODUCTS & CHEMICALS (3)	920.8	11	3578.8	7	86.7	15	245.1	18	9.4	9.1	11.1	22	2.17
ALBEMARLE	286.6	22	1080.9	20	5.7	194	50.3	217	2.0	0.8	9.4	17	0.79
ARCADIAN PARTNERS	288.3	30	1101.5	38	22.3	666	80.4	194	7.7	1.3	NA	8	2.98
ARCO CHEMICAL	947.0	13	3423.0	7	75.0	10	269.0	26	7.9	8.1	16.4	15	2.80
CABOT (3)	428.0	7	1709.3	6	33.9	112	96.6	133	7.9	4.0	16.8	13	2.42
CBI INDUSTRIES	529.8**	21	1890.9	13	18.8	NM	51.5	NM	3.6	NM	6.8	21	1.20
DEXTER	250.8	13	974.7	10	9.2	11	37.9	11	3.7	3.8	11.1	14	1.56
DOW CHEMICAL	5494.0**	22	20015.0	11	224.0	NM	938.0	46	4.1	NM	11.3	19	3.37

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL.	CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	[illegible] 2-10	12 MONTHS' EARNINGS PER [illegible]
UPONT	10137.0***	10	39333.0	6	646.0	173	2727.0	382	6.4	2.6	22.2	14	[illegible]
ASTMAN CHEMICAL	1169.0	19	4329.0	11	104.0	174	336.0	26	8.9	3.9	27.8	13	4.0
NGELHARD	616.1**	14	2385.8	11	33.6	NM	118.0	608	5.5	NM	19.7	22	1.23
THYL	264.0	46	1174.1	–39	24.6	91	97.8	9	9.3	2.7	25.5	13	0.83
ERRO	313.9	18	1194.2	12	12.5	–21	47.4	–18	4.0	6.0	13.2	16	1.52
ULLER (H. B.) (1)	295.7	19	1097.4	13	8.6	445	30.9	42	2.9	0.6	11.6	15	2.20
EON	350.5	41	1208.6	24	18.1	NM	57.9	NM	5.2	NM	22.0	13	2.06
EORGIA GULF	305.2	59	955.3	24	57.6	450	122.2	189	18.9	5.5	NM	12	2.88
RACE (W. R.)	1472.9	24	5093.3	16	103.4	–64	83.3	–38	7.0	23.9	5.8	49	0.88
REAT LAKES CHEMICAL	576.2**	30	2110.7	15	71.7	3	278.7	2	12.4	15.7	21.8	15	4.00
ANNA (M. A.)	459.7**	30	1719.4	22	10.2	71	37.0	74	2.2	1.7	9.1	21	1.20
ERCULES	754.1	6	2813.0	1	91.1	56	274.2	32	12.1	8.2	21.7	19	2.29
IC GLOBAL (6)	451.8	37	1718.7	60	27.9	NM	72.2	NM	6.2	NM	10.8	18	2.50
ICTITE	182.6	20	703.6	15	21.3	43	82.4	21	11.6	9.8	20.0	19	2.33
ONDELL PETROCHEMICAL	1096.0	34	3857.0	0	103.0	636	223.0	NM	9.4	1.7	354.0	9	2.78
ONSANTO	2090.0	11	8272.0	5	54.0	–7	622.0	26	2.6	3.1	21.1	14	5.32
ORTON INTERNATIONAL (6)	830.9	20	3115.5	23	72.7	35	264.5	71	8.8	7.8	18.2	17	1.76
ALCO CHEMICAL	314.0	–10	1345.6	–3	22.7	–44	97.1	–36	7.2	11.7	15.7	28	1.25
. INDUSTRIES	223.8	22	888.0	10	2.5	NM	–24.0	NM	1.1	NM	NM	NM	–0.47
IN	678.2	13	2658.1	10	25.8	NM	90.8	NM	3.8	NM	10.8	14	3.65
RAXAIR	722.0	18	2711.0	11	55.0	38	203.0	42	7.6	6.5	24.2	14	1.45
OHM & HAAS	860.0**	13	3534.0	8	47.0	81	264.0	110	5.5	3.4	17.6	15	3.79
CHULMAN (A.) (4)	251.2	50	832.1	24	13.2	35	48.0	20	5.3	5.8	13.4	22	1.28
ERLING CHEMICALS (3)	240.6	84	810.9	59	22.3	NM	44.9	NM	9.3	NM	50.1	14	0.80
ERRA INDUSTRIES	300.3**	80	1665.9	35	13.9	NM	56.2	146	4.6	NM	19.3	15	0.77
NION CARBIDE	1310.0	22	4865.0	5	157.0	257	389.0	136	12.0	4.1	25.1	12	2.44
ITCO	541.5	8	2224.7	4	25.6	NM	107.1	442	4.7	NM	11.5	15	1.92
CONGLOMERATES													
IDUSTRY COMPOSITE	**46966.9**	**7**	**171531.3**	**7**	**3044.3**	**23**	**10453.1**	**35**	**6.5**	**5.6**	**20.2**	**15**	**3.09**
CO STANDARD (3)	2181.6**	14	8255.9	19	45.5	43	84.2	473	2.1	1.7	6.2	51	1.27
LIEDSIGNAL	3534.0	16	12817.0	8	205.0	15	759.0	16	5.8	5.8	27.1	14	2.68
ILTEC INDUSTRIES	340.4	–1	1326.8	–1	25.9	12	94.0	44	7.6	6.8	NM	12	1.35
AL	917.5	12	3546.8	18	34.3	20	140.3	27	3.7	3.5	25.6	15	1.61
XMEYER HEALTH (9)	1306.1	6	5168.3	–4	14.7	94	43.1	399	1.1	0.5	10.4	9	1.75
NERAL ELECTRIC	17791.9**	5	60108.5	8	1685.4	18	5915.4	41	9.5	8.4	22.0	15	3.46
RCOURT GENERAL (2)	802.7**	5	3154.2	2	43.2	184	97.5	–18	5.4	2.0	9.3	28	1.22
T	6736.0	20	23620.0	12	242.0	38	852.0	29	3.6	3.1	14.1	13	7.10
IDEN	556.4	6	2110.2	3	16.1	–8	67.8	9	2.9	3.3	13.6	13	1.55
EMARK INTERNATIONAL	993.6	13	3450.8	11	89.9	21	225.5	31	9.1	8.4	25.3	12	3.39
CKWELL INTERNATIONAL (3)	2623.0	1	11145.4	2	164.7	10	649.3	11	6.3	5.7	19.4	13	2.95
LEDYNE	644.4	2	2391.2	–4	16.4	4	–8.4	NM	2.5	2.5	–3.1	NM	–0.15
NNECO	2818.0	–10	12174.0	–1	209.0	53	641.0	55	7.4	4.4	21.2	13	3.49
XTRON	2377.0**	–2	9683.0	7	112.0	9	433.0	14	4.7	4.2	14.5	11	4.80
W	2446.7	22	9087.7	14	100.2	59	333.2	51	4.1	3.1	18.6	13	5.05
LHI †	200.4	–1	832.7	7	8.2	295	19.7	NM	4.1	1.0	9.1	47	0.17
HITMAN	697.1	4	2658.8	5	31.8	9	106.4	0	4.6	4.4	19.8	17	1.00
CONSUMER PRODUCTS													
DUSTRY COMPOSITE	**72022.5**	**13**	**265946.1**	**10**	**4797.0**	**79**	**18777.2**	**46**	**6.7**	**4.2**	**24.3**	**17**	**2.33**
) APPAREL													
ROUP COMPOSITE	**5136.4**	**17**	**19663.9**	**10**	**242.0**	**30**	**817.4**	**26**	**4.7**	**4.2**	**14.6**	**18**	**2.19**
OWN GROUP (11)	406.9	6	1511.3	8	14.9	20	–0.8	NM	3.7	3.2	NA	NM	–0.06
LLWOOD (8)	376.0	10	1239.5	5	11.1	4	36.8	10	3.0	3.1	11.3	10	1.76
KE (7)	1053.7	31	4100.1	6	84.9	62	323.3	–3	8.1	6.5	17.4	16	4.37
FORD INDUSTRIES (7)	192.2	8	654.6	9	6.1	4	20.3	20	3.2	3.3	14.9	9	2.35
ILLIPS-VAN HEUSEN (11)	379.4	6	1211.1	9	17.9	–27	33.2	–16	4.7	6.9	12.6	13	1.22
EBOK INTERNATIONAL	709.2	18	3280.4	13	53.0	5	254.5	14	7.5	8.4	26.4	12	3.02
SSELL	305.5	22	1098.3	18	28.5	18	78.8	61	9.3	9.6	12.7	15	1.96
	1289.3	17	4971.7	15	74.9	23	274.5	11	5.8	5.6	15.9	12	4.20
ESTPOINT STEVENS	424.2	8	1596.8	6	–49.4	NM	–203.4	NM	NM	NM	NM	NM	–6.02
) APPLIANCES & HOME FURNISHINGS													
OUP COMPOSITE	**10107.3**	**24**	**37436.6**	**22**	**114.5**	**–50**	**1271.0**	**28**	**1.1**	**2.8**	**14.0**	**16**	**1.52**
MSTRONG WORLD INDUSTRIES	705.4	13	2752.7	9	47.5	NM	210.4	231	6.7	NM	27.8	9	5.22
ST BUY (10)	1349.9	67	4325.6	78	17.7	59	51.0	64	1.3	1.4	14.7	23	1.18
RCUIT CITY STORES (10)	1405.4	38	5079.4	33	28.4	46	151.9	21	2.0	1.9	19.2	16	1.56
ETTER (11)	204.0	120	877.3	134	–1.1	NM	–1.7	NM	NM	NM	–16.7	NM	–0.33
OD GUYS (3)	281.7	30	795.4	30	8.6	17	15.1	54	3.1	3.4	12.7	11	1.15
ILIG-MEYERS (10)	315.1**	37	1095.0	36	18.8	18	66.2	31	6.0	6.9	13.8	19	1.32
TERCO	277.2	10	1072.7	9	10.8	78	27.9	31	3.9	2.4	7.3	13	0.54
MBALL INTERNATIONAL (6)	230.1	12	858.3	10	11.7	39	37.6	1	5.1	4.1	10.6	15	1.77
-Z-BOY CHAIR (8)	230.6	10	838.7	13	12.1	16	36.7	13	5.2	5.0	12.6	14	2.01
VITZ FURNITURE (9)	294.7	7	1037.2	5	5.0	–46	15.6	231	1.7	3.4	NM	13	0.52
ASCO	1148.0	14	4468.0	15	–13.8	NM	193.7	–12	NM	5.7	8.7	20	1.22
AYTAG	862.6	16	3372.5	13	18.0	3	151.1	195	2.1	2.3	20.7	11	1.42

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	SALES CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	SALES CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	PROFITS CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	PROFITS CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
SUN TV & APPLIANCES (7)	199.1	30	697.1	35	4.2	3	18.2	18	2.1	2.7	13.3	9	1.03
SUNBEAM-OSTER	298.8	13	1198.4	12	29.4	23	107.0	20	9.8	9.1	20.2	19	1.30
TORO	205.7	52	864.3	22	8.3	NM	32.4	112	4.0	NM	18.1	12	2.49
WHIRLPOOL	2099.0	10	8104.0	8	–91.0	NM	158.0	–32	NM	3.6	9.2	25	2.10
(C) BEVERAGES													
GROUP COMPOSITE	**18428.1**	**15**	**65613.5**	**12**	**1340.6**	**15**	**5679.5**	**23**	**7.3**	**7.3**	**30.4**	**21**	**2.15**
ANHEUSER-BUSCH	2959.1	4	12053.8	5	175.7	5	1032.1	74	5.9	5.8	23.2	14	3.91
BROWN-FORMAN (8)	415.0	5	1416.7	0	49.1	–22	146.3	–10	11.8	15.8	29.3	16	2.04
CANANDAIGUA WINE (4)	243.5	58	718.6	84	10.3	83	16.4	–7	4.2	3.7	5.2	39	0.98
COCA-COLA	4017.0	19	16172.0	16	567.0	22	2554.0	17	14.1	13.8	45.6	27	1.98
COCA-COLA ENTERPRISES	1487.0	12	6011.0	10	11.0	267	69.0	NM	0.7	0.2	5.0	40	0.52
DR PEPPER/SEVEN-UP	184.0	10	769.0	9	14.2	–34	77.7	–17	7.7	12.9	NM	29	1.13
PEPSICO	9122.5	18	28472.4	14	513.3	16	1784.0	12	5.6	5.7	26.0	17	2.22
(D) PERSONAL CARE													
GROUP COMPOSITE	**14818.7**	**9**	**54596.6**	**7**	**1256.5**	**35**	**4261.1**	**105**	**8.5**	**6.9**	**27.7**	**19**	**3.38**
ALBERTO-CULVER (3)	311.5	9	1243.0	7	11.2	31	46.7	13	3.6	3.0	14.0	16	1.67
AVON PRODUCTS	1363.5	13	4266.5	11	110.1	12	264.8	12	8.1	8.2	149.3	16	3.75
CLOROX (6)	414.5	12	1907.2	10	34.1	11	190.4	10	8.2	8.2	21.4	16	3.57
COLGATE-PALMOLIVE	1996.1	8	7587.9	6	137.1	12	580.2	6	6.9	6.6	30.5	16	3.82
GILLETTE	1799.2	11	6070.2	12	199.9	NM	698.3	64	11.1	0.3	37.7	25	3.14
HELENE CURTIS INDUSTRIES (10)	282.4	6	1239.2	5	3.4	21	17.8	18	1.2	1.0	8.3	16	1.88
NCH (8)	184.6	13	710.5	6	10.7	16	32.9	–2	5.8	5.7	10.9	16	3.98
PROCTER & GAMBLE (6)	8467.0	9	31572.0	5	750.0	15	2430.0	301	8.9	8.4	25.0	19	3.40
(E) TOBACCO													
GROUP COMPOSITE	**23532.1**	**9**	**88635.6**	**5**	**1843.4**	**1033**	**6748.1**	**48**	**7.8**	**0.8**	**23.7**	**12**	**2.30**
AMERICAN BRANDS	3750.1**	7	13146.5	4	471.9	228	885.1	64	12.6	4.1	19.8	9	4.38
DIBRELL BROTHERS (6)	306.3	15	965.2	1	3.3	50	–13.6	NM	1.1	0.8	–10.6	NM	-1.03
PHILIP MORRIS	13844.0	12	53776.0	6	1092.0	222	4725.0	32	7.9	2.8	37.0	11	5.45
RJR NABISCO HOLDINGS	4044.0	0	15366.0	2	162.0	NM	764.0	NM	4.0	NM	6.6	14	0.42
STANDARD COMMERCIAL (9)	301.9	27	1118.5	4	0.3	NM	–20.6	NM	0.1	NM	–20.5	NM	–2.44
UNIVERSAL (6)	963.7**	12	3040.4	5	14.9	–26	20.7	–65	1.6	2.3	5.5	34	0.58
UST	322.1*	12	1223.0	10	99.0	14	387.5	5	30.7	30.3	86.6	16	1.87
7 CONTAINERS & PACKAGING													
INDUSTRY COMPOSITE	**8389.1**	**19**	**31448.5**	**10**	**246.6**	**NM**	**605.9**	**NM**	**2.9**	**NM**	**8.2**	**34**	**0.67**
(A) GLASS, METAL & PLASTIC													
GROUP COMPOSITE	**2589.5**	**9**	**10614.2**	**5**	**14.5**	**NM**	**282.3**	**NM**	**0.6**	**NM**	**11.8**	**21**	**1.16**
BALL	613.3	10	2594.7	7	22.0	NM	73.0	NM	3.6	NM	11.6	14	2.35
CROWN CORK & SEAL	1091.4	17	4452.2	7	40.1	14	131.0	–28	3.7	3.8	9.6	28	1.47
OWENS-ILLINOIS	884.8	1	3567.3	1	–47.6	NM	78.3	NM	NM	NM	19.8	17	0.64
(B) PAPER													
GROUP COMPOSITE	**5799.6**	**23**	**20834.3**	**13**	**232.1**	**NM**	**323.6**	**NM**	**4.0**	**NM**	**6.4**	**46**	**0.49**
BEMIS	373.2	21	1390.5	16	22.2	18	72.8	58	6.0	6.1	17.4	19	1.40
FEDERAL PAPER BOARD	528.3	28	1569.6	13	48.1	396	72.0	NM	9.1	2.4	7.4	19	1.55
GAYLORD CONTAINER (3)	241.2	31	841.7	14	11.8	NM	–49.2	NM	4.9	NM	NM	NM	–0.93
JEFFERSON SMURFIT	881.3	21	3233.3	10	26.7	NM	12.3	NM	3.0	NM	NM	NM	0.12
LONGVIEW FIBRE (2)	228.3	28	790.9	15	10.2	41	33.4	–17	4.5	4.0	8.3	25	0.64
RIVERWOOD INTERNATIONAL	375.9	31	1282.8	15	–11.9	NM	10.2	217	NM	NM	2.0	NM	0.16
ROCK-TENN (3)	192.1	21	739.3	13	10.0	27	39.6	21	5.2	4.9	14.0	15	1.28
SONOCO PRODUCTS	607.2	13	2300.1	18	36.4	15	129.8	9	6.0	5.9	18.3	17	1.40
STONE CONTAINER	1621.0	30	5748.7	14	29.8	NM	–128.8	NM	1.8	NM	–24.8	NM	–1.60
TEMPLE-INLAND	751.1	12	2937.5	7	48.8	587	131.4	95	6.5	1.1	7.5	20	2.3[illegible]
8 DISCOUNT & FASHION RETAILING													
INDUSTRY COMPOSITE	**102180.1**	**12**	**388862.2**	**12**	**2899.6**	**36**	**10129.8**	**–9**	**2.8**	**2.3**	**12.8**	**21**	**1.28**
AMES DEPARTMENT STORES (11)	511.3**	–3	2103.7	NA	–5.1	NM	28.3	NA	NM	NM	60.5	3	1.3[illegible]
AUTOZONE (4)	389.8	21	1574.9	22	27.6	26	122.0	33	7.1	6.8	21.8	31	0.8[illegible]
BAKER (J.) (11)	262.0	17	1008.2	26	6.6	2	24.9	23	2.5	2.9	11.5	8	1.7[illegible]
BARNES & NOBLE (11)	359.0	22	1513.6	20	–3.4	NM	13.4	212	NM	NM	4.2	31	1.0[illegible]
BRADLEES (11)	424.0	–2	1878.0	0	0.5	50	20.3	21	0.1	0.1	13.4	6	1.8[illegible]
BROADWAY STORES (11)	497.1**	2	2157.1	–2	–18.4	NM	–67.3	NM	NM	NM	–18.4	NM	–1.4[illegible]
BURLINGTON COAT FACTORY WAREHOUSE (6)	656.5	5	1557.5	13	43.1	–23	27.8	–50	6.6	9.0	6.9	16	0.6[illegible]
CALDOR (11)	625.0	14	2669.1	16	1.1	–10	43.1	8	0.2	0.2	14.5	9	2.5[illegible]
CARSON PIRIE SCOTT (11)	277.3**	–1	1156.4	1	4.6	NM	37.5	NM	1.7	NM	15.3	9	1.8[illegible]
CHARMING SHOPPES (11)	306.3	–2	1284.5	4	7.5	51	63.3	–19	2.5	4.8	11.4	10	0.5[illegible]
CONSOLIDATED STORES (11)	310.1	19	1174.8	16	8.1	19	45.5	19	2.6	2.6	16.4	20	0.9[illegible]
DAYTON HUDSON (11)	5046.0**	9	20594.0	9	67.0	56	433.0	25	1.3	0.9	14.9	13	5.7[illegible]
DILLARD DEPARTMENT STORES (11)	1378.4**	8	5619.3	8	50.8	20	244.2	2	3.7	3.3	11.1	13	2.1[illegible]
DOLLAR GENERAL (11)	359.4	32	1346.9	29	17.3	58	62.8	45	4.8	4.0	22.0	30	1.1[illegible]
EDISON BROTHERS STORES (11)	353.6	3	1483.1	0	0.8	–64	13.8	–71	0.2	0.6	3.5	21	0.6[illegible]
F&M DISTRIBUTORS (11)	192.4	6	743.5	3	–23.6	NM	–33.9	NM	NM	0.7	–89.1	NM	–3.5[illegible]
FAMILY DOLLAR STORES (4)	356.3	6	1449.6	9	15.6	4	62.6	–5	4.4	4.5	16.4	12	1.1[illegible]
FEDERATED DEPARTMENT STORES (11)	1926.8**	8	7524.1	5	44.3	119	226.3	45	2.3	1.1	9.6	12	1.7[illegible]
FINGERHUT	696.8	10	1934.4	7	12.7	–69	45.9	–39	1.8	6.4	9.2	18	0.9[illegible]

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE/EARNINGS RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
AP (11)	988.3	10	3573.4	13	93.6	19	310.8	45	9.5	8.8	23.6	16	[illegible]
ECHINGER (11)	633.9	21	2399.4	18	3.3	37	30.5	16	0.5	0.5	5.8	18	[illegible]
LLS STORES (11)	457.2	NA	1825.4	NA	12.9	NA	39.2	NA	2.8	NA	13.5	8	2.78
OME DEPOT (11)	3240.1	40	11686.6	33	140.8	36	571.2	29	4.3	4.5	17.4	39	1.25
MART (11)	8885.0**	9	36109.0	7	39.0	-63	-464.0	NM	0.4	1.3	-9.4	NM	-1.03
IHL'S (11)	389.5	14	1446.9	18	13.8	5	62.8	25	3.6	3.9	21.0	26	1.71
NDS' END (11)	246.2	14	960.6	20	3.8	-52	38.8	5	1.6	3.7	23.3	15	1.08
MITED (11)	1715.2**	6	7203.0	1	90.5	10	387.9	-12	5.3	5.1	15.3	16	1.07
WE'S (11)	1579.0	36	5768.9	34	54.2	71	203.0	72	3.4	2.7	14.7	29	1.34
AY DEPARTMENT STORES (11)	2945.0**	5	11980.0	5	139.0	5	746.0	12	4.7	4.7	19.1	12	2.91
ELVILLE	3661.2	4	11285.6	8	212.7	-10	307.5	-7	5.8	6.8	13.1	12	2.75
ERCANTILE STORES (11)	679.5**	4	2779.3	2	26.2	28	101.0	18	3.9	3.1	7.5	16	2.74
ERRY-GO-ROUND ENTERPRISES (11)	199.1	-22	848.1	-11	-10.3	NM	-78.8	NM	NM	NM	-66.0	NM	-1.46
EYER (FRED) (11)	626.8	-3	3104.2	6	-36.6	NM	28.6	-57	NM	1.5	5.4	33	1.00
ICHAELS STORES (11)	283.1	82	852.6	51	7.8	61	27.5	18	2.8	3.1	8.3	24	1.50
ICRO WAREHOUSE	251.2	79	776.4	72	8.9	66	28.0	87	3.6	3.8	17.8	31	1.01
IMAN MARCUS GROUP (5)	519.7**	2	2104.9	3	19.8	30	20.5	-56	3.8	3.0	-59.1	NM	-0.23
ORDSTROM (11)	888.7	12	3906.3	7	38.1	50	194.1	50	4.3	3.2	15.2	18	2.36
FICE DEPOT	1255.3	43	4266.2	50	32.2	36	105.0	48	2.6	2.7	15.5	37	0.69
FICEMAX (11)	493.4	25	1701.4	NA	10.5	351	27.4	NA	2.1	0.6	4.2	48	0.54
YLESS CASHWAYS (1)	702.2	1	2722.5	5	17.5	12	52.1	439	2.5	2.3	12.2	8	1.17
NNEY (J. C.) (11)	5149.0**	9	20062.0	7	274.0	24	1068.0	21	5.3	4.7	19.8	10	4.31
P BOYS–MANNY, MOE & JACK (11)	363.2	15	1368.1	12	20.6	18	77.2	24	5.7	5.5	13.5	27	1.27
ICE/COSTCO (4)	4029.9**	9	16829.4	8	48.5	NM	196.4	61	1.2	NM	11.3	16	0.90
C (11)	364.5**	16	1336.7	12	14.5	-33	41.1	-43	4.0	6.9	6.8	55	0.84
SS STORES (11)	295.0	12	1215.7	11	11.1	132	37.1	14	3.8	1.8	15.4	8	1.49
ARS, ROEBUCK	15440.0	5	53920.0	6	490.0	-10	1259.0	-48	3.2	3.7	13.5	15	3.16
RVICE MERCHANDISE	1722.6	5	4050.4	6	86.0	-3	61.6	-25	5.0	5.4	18.3	7	0.61
OPKO STORES (10)	470.9	6	1829.7	7	11.3	-20	29.2	-27	2.4	3.2	9.2	10	0.91
APLES (11)	552.1	57	1522.0	27	12.0	-16	29.6	19	2.2	4.0	8.9	50	0.54
RAWBRIDGE & CLOTHIER (11)	226.6**	1	996.6	2	0.5	662	23.1	39	0.2	0.0	9.5	10	2.23
LBOTS (11)	215.8	18	834.0	18	20.0	22	51.2	37	9.3	8.9	13.5	24	1.47
K (11)	1011.9	5	3770.5	5	32.8	-31	101.6	-19	3.2	5.0	19.0	10	1.28
YS 'R' US (11)	1631.3	13	8438.9	13	47.4	26	497.5	11	2.9	2.6	17.3	18	1.69
S. SHOE (11)	655.7	-3	2583.2	-2	4.7	-43	32.7	NM	0.7	1.2	6.8	29	0.71
LUE CITY DEPARTMENT STORES (5)	205.6	-7	866.1	0	5.1	-47	34.4	0	2.5	4.4	15.4	8	1.07
NTURE STORES (11)	463.6**	4	1967.5	10	1.6	-76	34.8	-23	0.3	1.5	13.1	7	1.90
KING OFFICE PRODUCTS (6)	189.2	42	673.7	36	9.2	48	38.4	54	4.9	4.7	23.4	30	0.91
ABAN (11)	905.6	1	3568.5	-2	13.4	66	-1.2	NM	1.5	0.9	-0.3	NM	-0.05
AL-MART STORES (11)	20417.7	21	78406.7	22	588.1	13	2519.4	14	2.9	3.1	20.8	21	1.10
OOLWORTH (11)	2097.0**	-12	8549.0	-14	37.0	NM	-154.0	NM	1.8	NM	-11.9	NM	-1.17
LE (5)	205.5	11	NA	NA	-3.2	NM	NA	NA	NM	NM	NA	NA	NA
ELECTRICAL & ELECTRONICS													
DUSTRY COMPOSITE	42139.4	17	154659.4	16	2914.3	33	11360.5	27	6.9	6.1	17.4	17	2.67
ELECTRICAL PRODUCTS													
OUP COMPOSITE	8212.9	9	29780.8	4	307.2	NM	1412.9	24	3.7	NM	11.5	24	1.41
IETEK	200.3	9	808.0	10	10.3	NM	39.0	NM	5.1	NM	60.0	17	1.05
OPER INDUSTRIES	1239.9**	7	4588.0	-4	85.5	14	292.8	-2	6.9	6.5	9.0	19	2.10
IERSON ELECTRIC (3)	2284.6	14	8882.3	8	224.8	-24	835.3	0	9.8	14.6	19.2	18	3.74
BBELL	277.2	31	1013.7	22	28.5	NM	106.5	61	10.3	NM	17.9	16	3.20
GNETEK (6)	290.6	12	1158.9	2	4.5	NM	10.4	NM	1.5	NM	8.7	33	0.42
TIONAL SERVICE INDUSTRIES (4)	481.0	5	1902.9	4	21.1	10	84.6	12	4.4	4.2	11.5	15	1.71
YCHEM (6)	382.5	8	1502.9	8	20.0	NM	-34.7	NM	5.2	0.5	-5.0	NM	-0.80
OMAS & BETTS	288.8	17	1076.2	12	19.6	46	1.9	-96	6.8	5.4	0.3	NM	0.10
STINGHOUSE ELECTRIC	2768.0	5	8848.0	0	-107.0	NM	77.0	NM	NM	NM	1.7	NM	0.07
ELECTRONICS													
OUP COMPOSITE	17553.1	15	65079.7	18	1276.9	26	4217.5	25	7.3	6.7	16.5	18	2.72
SYSTEMS	553.0	6	2028.3	-3	29.9	-6	95.6	-22	5.4	6.1	11.8	16	2.79
NERAL INSTRUMENT	540.3	32	2036.3	46	86.8	119	248.5	175	16.1	9.7	44.8	15	2.01
HUGHES ELECTRONICS	3662.9	-2	14062.3	5	255.6	-8	1079.6	17	7.0	7.4	13.9	13	2.70
RRIS (6)	872.3**	7	3463.9	8	34.8	16	130.8	9	4.0	3.7	11.2	13	3.31
TON INDUSTRIES (5)	788.8	-6	3393.8	-1	32.1	24	57.5	-35	4.1	3.1	8.8	30	1.21
RAL (9)	1334.9	48	5445.7	53	71.0	25	276.5	37	5.3	6.3	18.4	13	3.26
TOROLA	6453.0	29	22245.0	31	[illegible]	51	1560.0	53	8.0	6.8	20.5	24	2.65
YTHEON	2729.0	8	10013.1	9	205.7	11	596.8	-14	7.5	7.4	13.9	15	4.51
NSORMATIC ELECTRONICS (6)	217.8	36	761.5	39	25.3	34	83.8	33	11.6	11.8	10.7	25	1.26
RIAN ASSOCIATES (3)	401.1	24	1629.9	21	20.8	78	88.4	74	5.2	3.6	19.7	16	2.49
INSTRUMENTS													
OUP COMPOSITE	4832.0	11	17864.7	10	223.1	67	728.2	55	4.6	3.1	15.7	16	2.17
CKMAN INSTRUMENTS	250.0	6	888.6	1	[illegible]	NM	47.3	NM	5.3	NM	14.9	18	1.68
NEYWELL	1737.7	7	6057.0	2	104.9	-7	278.9	-13	6.0	7.0	15.1	17	2.15
INSON CONTROLS (3)	1857.6	17	7143.1	14	41.2	8	168.3	17	2.2	2.4	15.3	13	3.88
RKIN-ELMER (6)	261.0	2	1032.6	NA	17.1	-23	70.3	NA	6.6	8.6	24.5	18	1.61

COMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS EARNINGS PER SHARE
TEKTRONIX (7)	348.4	10	1371.9	8	18.4	60	73.9	NM	5.3	3.6	13.9	15	2.44
TERADYNE	190.1	29	677.4	22	22.5	76	70.9	97	11.8	8.7	15.4	19	1.91
TRACOR	187.2	7	694.0	70	5.9	56	18.5	100	3.1	2.2	20.5	12	0.96
(D) SEMICONDUCTORS & OTHER COMPONENTS													
GROUP COMPOSITE	**11541.4**	**29**	**41934.2**	**27**	**1107.1**	**3**	**5002.0**	**26**	**9.6**	**12.0**	**21.8**	**15**	**3.57**
ADVANCED MICRO DEVICES	545.2	32	2134.7	30	40.8	–2	305.3	33	7.5	10.1	17.0	10	3.02
AMP	1097.0	26	4027.0	17	101.0	42	369.0	24	9.2	8.1	15.9	21	3.52
AMPHENOL	185.4	22	692.7	15	13.0	77	42.4	71	7.0	4.8	15.9	27	0.91
ANALOG DEVICES (2)	203.3	14	773.5	16	21.7	55	74.5	68	10.7	7.8	14.3	24	0.96
CIRRUS LOGIC (9)	228.6	48	786.0	62	14.5	–28	57.1	124	6.3	13.0	14.5	18	1.84
INTEL	3228.0	35	11521.0	31	372.0	–37	2288.0	0	11.5	24.9	25.3	15	5.24
LSI LOGIC	255.7	35	894.8	24	36.5	132	108.7	102	14.3	8.3	20.0	26	1.98
MICRON TECHNOLOGY (4)	535.0	67	1843.5	81	159.3	136	492.2	191	29.8	21.1	40.7	11	4.68
MOLEX (6)	275.0	22	1049.8	17	27.9	30	107.3	30	10.2	9.5	11.8	23	1.35
NATIONAL SEMICONDUCTOR (7)	584.4	0	2292.3	5	67.0	10	272.2	46	11.5	10.4	21.4	9	2.07
READ-RITE (3)	219.5	66	726.1	32	19.6	NM	41.6	NM	8.9	NM	9.9	18	0.89
SCI SYSTEMS (6)	621.5	47	2248.5	30	10.2	11	31.8	–14	1.6	2.2	10.1	17	1.15
SOLECTRON (4)	506.7	57	1641.6	61	18.2	53	61.8	61	3.6	3.7	17.6	16	1.46
TEXAS INSTRUMENTS	2782.0	17	10315.0	21	188.0	41	691.0	45	6.8	5.6	22.7	11	7.27
VISHAY INTERTECHNOLOGY	274.2	34	987.8	15	17.5	98	58.9	38	6.4	4.3	10.8	22	2.52
10 FOOD													
INDUSTRY COMPOSITE	**80072.8**	**6**	**304582.2**	**5**	**1682.0**	**–17**	**6850.8**	**–9**	**2.1**	**2.7**	**18.2**	**22**	**1.34**
(A) FOOD DISTRIBUTION													
GROUP COMPOSITE	**9241.5**	**10**	**36613.3**	**5**	**9.4**	**–93**	**393.9**	**–7**	**0.1**	**1.5**	**11.7**	**21**	**1.13**
INTERNATIONAL MULTIFOODS (10)	693.8	18	2333.0	6	10.9	–12	40.2	NM	1.6	2.1	14.2	9	2.23
RICHFOOD HOLDINGS (8)	344.6	21	1339.6	13	5.4	21	23.1	30	1.6	1.6	21.3	16	1.08
RYKOFF-SEXTON (8)	392.7	7	1540.6	7	4.0	75	8.6	NM	1.0	0.6	4.2	27	0.58
SMART & FINAL	247.5	23	952.5	14	4.0	46	17.5	18	1.6	1.4	14.2	18	0.85
SUPER FOOD SERVICES (4)	271.2**	0	1130.2	–2	2.4	5	8.9	–5	0.9	0.8	6.7	14	0.82
SUPER RITE (10)	376.8	17	1400.8	12	3.3	39	7.9	425	0.9	0.7	18.6	19	0.81
SUPERVALU (10)	3908.2	6	16360.1	2	–84.1	NM	52.6	71	NM	1.2	4.4	32	0.73
SYSCO (6)	3006.7	13	11556.5	9	63.5	14	235.0	11	2.1	2.1	18.3	22	1.29
(B) FOOD PROCESSING													
GROUP COMPOSITE	**37252.9**	**7**	**140002.6**	**6**	**1238.9**	**–21**	**4518.9**	**–19**	**3.3**	**4.5**	**17.7**	**24**	**1.46**
BORDEN	1544.0	5	5626.1	2	-484.1	NM	-539.0	NM	NM	NM	NM	NM	-3.75
CAMPBELL SOUP (5)	1864.0	6	6791.0	2	197.0	19	661.0	144	10.6	9.4	30.7	17	2.64
CONAGRA (7)	6288.6	–1	24004.2	7	149.9	12	462.2	17	2.4	2.1	18.3	17	1.92
CPC INTERNATIONAL	2018.5	15	7425.4	10	136.5	9	345.1	–24	6.8	7.2	20.3	24	2.25
DEAN FOODS (7)	662.8	15	2571.6	12	20.0	15	79.7	25	3.0	3.0	14.5	15	2.00
DOLE FOOD	954.5	20	3841.6	12	1.2	NM	67.9	–13	0.1	NM	6.2	25	1.14
FLOWERS INDUSTRIES (6)	270.0	15	1041.7	6	10.6	30	33.5	–12	3.9	3.5	11.4	21	0.90
GENERAL MILLS (7)	2201.8	1	8427.8	2	149.2	6	463.4	–10	6.8	6.4	33.6	20	2.93
HEINZ (H. J.) (8)	1975.4	9	7367.2	2	139.6	–28	551.9	–4	7.1	10.7	23.6	18	2.19
HERSHEY FOODS	1079.9	4	3606.3	3	24.8	–73	184.2	–38	2.3	8.9	12.8	24	2.12
HORMEL FOODS (2)	840.5	3	3064.8	7	54.2	24	118.0	17	6.5	5.3	17.8	18	1.54
HUDSON FOODS (3)	280.0	12	1070.5	14	9.8	61	30.7	73	3.5	2.4	14.7	16	1.78
IBP	3233.5	14	12075.4	3	77.8	247	182.3	135	2.4	0.8	23.4	8	3.79
INTERSTATE BAKERIES (7)	280.7	4	1158.9	0	6.1	–17	13.4	–50	2.2	2.7	6.9	22	0.69
KELLOGG	1592.0	2	6562.0	4	153.3	3	705.4	4	9.6	9.5	39.2	18	3.15
LANCASTER COLONY (6)	225.2	17	770.5	14	20.0	29	66.6	28	8.9	8.1	27.6	15	2.27
McCORMICK (1)	508.6	10	1694.8	9	–2.7	NM	61.2	–39	NM	8.8	12.4	30	0.75
PET (6)	457.9	0	1576.3	1	39.2	–2	112.6	–3	8.6	8.8	31.1	23	1.11
PILGRIM'S PRIDE (3)	227.0	2	927.8	4	0.6	–93	23.2	–3	0.2	3.8	14.3	10	0.84
QUAKER OATS (6)	1507.9	11	6211.1	7	34.4	–20	193.1	–37	2.3	3.2	40.4	24	1.47
RALCORP HOLDINGS (3)	278.4	4	998.3	8	17.1	2	54.0	4	6.1	6.3	38.2	14	1.61
RALSTON PURINA GROUP (3)	1513.5	–12	5548.5	–7	106.4	–20	204.1	–37	7.0	7.7	54.8	25	1.85
SARA LEE (6)	4648.0	16	16668.0	11	252.0	7	260.0	–65	5.4	5.9	7.1	54	0.49
SAVANNAH FOODS & INDUSTRIES (3)	282.5	1	1076.7	–2	3.6	2	5.8	5	1.3	1.3	3.1	51	0.23
SMITHFIELD FOODS (8)	385.4	9	1521.2	17	7.8	745	29.3	NM	2.0	0.3	17.2	19	1.70
SMUCKER (J. M.) (8)	184.3	41	597.1	25	12.3	18	32.7	–11	6.7	8.0	13.1	21	1.11
THORN APPLE VALLEY (7)	186.2	–2	773.4	3	7.7	113	16.8	47	4.1	1.9	16.3	9	2.9
TYSON FOODS (3)	1326.4	15	5283.8	11	52.2	18	5.7	–97	3.9	3.9	0.4	NM	0.05
UNIVERSAL FOODS (3)	187.7	–15	896.8	–1	35.6	146	72.0	25	19.0	6.6	22.0	11	2.7
WLR FOODS (6)	247.8	36	824.1	19	6.8	64	21.9	43	2.7	2.3	12.3	13	1.9
(C) FOOD RETAILING													
GROUP COMPOSITE	**33578.3**	**4**	**127966.3**	**3**	**433.7**	**26**	**1938.0**	**23**	**1.3**	**1.1**	**22.0**	**18**	**1.17**
ALBERTSON'S (11)	2928.0	7	11887.5	9	94.3	50	400.1	26	3.2	2.3	25.4	19	1.58
AMERICAN STORES (11)	4431.9	–2	18579.1	–1	97.9	116	316.6	24	2.2	1.0	16.5	11	2.23
BRUNO'S (6)	784.1	2	2863.3	–1	14.1	51	47.7	32	1.8	1.2	11.3	16	0.6
CASEY'S GENERAL STORES (8)	225.1*	20	800.8	13	7.5	40	20.4	37	3.3	2.9	11.9	18	0.82
DELCHAMPS (6)	260.5	–5	1052.8	–2	0.2	93	7.6	–44	0.1	0.9	5.6	16	1.0

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN COMMON EQUITY 12 MONTHS ENDING 12-31	RANK 2-10	12 MONTHS' EARNINGS PER SHARE
GLE FOOD CENTERS (11)	252.2	-3	1024.0	-4	-7.4	NM	-24.6	NM	NM	0.5	-51.8	NM	[illegible]
OD LION	2456.9	3	7932.6	4	50.4	NM	152.9	NM	2.1	NM	15.5	17	[illegible]
ANT FOOD (10)	834.8	4	3650.0	4	18.6	5	89.9	-2	2.2	2.2	12.4	15	1.51
EAT ATLANTIC & PACIFIC TEA (10)	2345.6	0	10324.4	-1	-185.7	NM	-191.8	NM	NM	0.0	-24.9	NM	-5.02
NNAFORD BROTHERS	611.9**	19	2291.8	12	16.7	17	62.3	14	2.7	2.8	14.1	17	1.50
LES MARKETS (3)	330.2	11	1265.8	9	3.8	0	16.6	27	1.2	1.3	10.5	11	0.90
OGER	5585.8	3	22959.1	3	92.0	6	268.9	57	1.6	1.6	NM	11	2.37
RSH SUPERMARKETS (9)	307.3***	6	1318.8	8	1.8	12	8.2	3	0.6	0.5	7.3	10	0.97
TIONAL CONVENIENCE STORES (6)	220.5	3	888.3	NA	1.6	6	3.4	NA	0.7	0.7	4.4	16	0.54
NN TRAFFIC (11)	828.1**	6	3319.1	8	4.8	NM	21.5	339	0.6	NM	106.6	18	1.97
ALITY FOOD CENTERS	192.2	18	575.9	11	8.4	14	26.4	1	4.4	4.5	17.5	18	1.34
DDICK (3)	508.3	9	1952.2	10	8.3	32	33.8	20	1.6	1.3	11.4	14	1.44
FEWAY	4890.3	4	15626.6	3	85.7	83	250.2	103	1.8	1.0	45.5	17	2.02
ITH'S FOOD & DRUG CENTERS	753.9	4	2981.4	6	14.2	43	48.8	6	1.9	1.4	10.3	16	1.73
OP & SHOP (11)	854.6	6	3751.4	7	16.7	35	79.0	31	2.0	1.5	40.8	16	1.52
IS MARKETS	438.4	18	1556.7	8	22.3	15	76.2	5	5.1	5.2	10.0	14	1.75
NN-DIXIE STORES (6)	3537.8	5	11364.9	3	67.5	6	223.9	-7	1.9	1.9	21.0	18	3.02
. FUEL													
DUSTRY COMPOSITE	**109743.1**	**8**	**411895.8**	**2**	**4856.2**	**68**	**15005.2**	**4**	**4.4**	**2.9**	**10.4**	**20**	**2.38**
COAL, OIL & GAS													
OUP COMPOSITE	**105074.3**	**8**	**394151.8**	**2**	**4517.8**	**52**	**14039.2**	**0**	**4.3**	**3.1**	**10.4**	**19**	**2.45**
ERADA HESS	1788.6**	7	6698.8	14	8.7	NM	73.7	NM	0.5	NM	2.4	60	0.79
DCO	6952.0**	6	26979.0	5	536.0	-8	1789.0	-2	7.7	8.9	12.6	16	3.60
HLAND (3)	2534.0	7	9667.0	1	35.0	-40	174.0	-1	1.4	2.4	11.6	13	2.55
ANTIC RICHFIELD	3939.0	-10	15035.0	-13	311.0	NM	919.0	242	7.9	NM	14.8	19	5.63
RLINGTON RESOURCES	240.5	-8	1054.8	1	52.8	1	154.2	-40	22.0	19.8	6.1	29	1.20
EVRON	9247.0**	4	35844.0	-3	525.0	79	1595.0	26	5.7	3.3	11.1	19	2.45
ASTAL	2352.1	-8	10215.3	1	81.8	8	232.6	97	3.5	3.0	9.0	14	2.05
MOND SHAMROCK	675.6	8	2606.3	2	15.5	761	75.8	133	2.3	0.3	12.4	10	2.45
XON	27033.0**	8	101091.9	2	1900.0	27	5100.0	-3	7.0	6.0	13.8	15	4.07
A	887.3	13	3421.1	0	35.7	NM	102.0	45	4.0	NM	9.1	11	6.54
RR-McGEE	829.5	0	3353.4	2	20.4	NM	90.1	17	2.5	0.0	5.8	28	1.74
UISIANA LAND & EXPLORATION	206.2**	-14	801.5	-2	-222.4	NM	-226.9	NM	NM	2.6	-39.4	NM	-6.80
PCO	823.8**	19	3059.3	13	37.6	8	79.1	-38	4.6	5.0	13.4	21	2.64
TCHELL ENERGY & DEVELOPMENT (11)	188.7	-24	852.7	-12	8.6	NM	26.4	-32	4.6	NM	3.5	31	0.49
BIL	18892.0**	12	67110.9	5	523.0	50	1759.0	-16	2.8	2.1	10.1	20	4.28
RPHY OIL	431.4**	2	1768.5	6	18.2	-10	106.6	23	4.2	4.8	8.3	18	2.37
CIDENTAL PETROLEUM	2564.0	27	9236.0	14	0.0	NM	-36.0	NM	0.0	0.8	-3.5	NM	-0.36
X ENERGY	284.0**	24	1072.0	2	14.0	NM	-65.0	NM	4.9	NM	-15.2	NM	-0.68
NZOIL	657.4**	15	2562.9	0	-11.5	NM	-283.7	NM	NM	16.1	-23.1	NM	-6.16
LLIPS PETROLEUM	3017.0	5	12211.0	-1	162.0	710	484.0	98	5.4	0.7	16.4	17	1.85
TSTON MINERALS GROUP	208.9	17	810.3	16	8.2	NM	-52.9	NM	3.9	NM	NM	NM	-7.50
AKER STATE	227.2	47	755.3	20	2.7	230	14.0	42	1.2	0.5	5.5	30	0.49
N	2862.0**	25	9908.0	5	3.0	-95	97.0	-66	0.1	2.8	5.0	32	0.91
ORO PETROLEUM	220.7**	7	877.2	5	15.3	-8	20.5	21	6.9	8.0	12.2	13	0.77
ACO	8959.0**	4	33353.0	-2	381.0	9	979.0	-22	4.3	4.1	9.9	18	3.43
SCO	1798.8	57	6365.8	79	20.8	33	83.8	4	1.2	1.4	13.8	12	2.27
RAMAR	687.0	17	2475.4	2	6.4	-74	61.0	-29	0.9	4.3	10.9	17	1.56
ION TEXAS PETROLEUM HOLDINGS	214.0	13	748.0	10	17.0	240	67.0	116	7.9	2.6	19.7	25	0.76
OCAL	1984.0**	1	7965.0	-5	-68.0	NM	124.0	-64	NM	2.2	3.3	75	0.36
K-MARATHON GROUP	3408.0*	17	12757.0	7	37.0	NM	321.0	NM	1.1	NM	10.0	14	1.10
ERO ENERGY	562.6	100	1837.4	50	3.9	NM	26.9	-26	0.7	NM	1.7	44	0.40
STAR RESOURCES	399.0	-1	1658.0	9	39.0	117	149.0	27	9.8	4.4	NM	17	1.54
PETROLEUM SERVICES													
OUP COMPOSITE	**4668.8**	**2**	**17744.0**	**-1**	**338.4**	**NM**	**966.0**	**164**	**7.2**	**NM**	**10.0**	**23**	**1.63**
KER HUGHES (3)	606.9	-3	2487.1	-6	24.2	44	138.5	94	4.0	2.7	7.7	20	0.90
LIBURTON	1533.4**	-7	5740.5	-10	127.5	NM	177.8	NM	8.3	NM	9.6	22	1.56
HLUMBERGER	1780.8	2	6696.8	0	154.6	25	536.1	-8	8.7	7.1	11.7	25	2.21
ITH INTERNATIONAL	198.2**	236	653.9	196	10.5	69	35.9	NM	5.3	10.5	14.8	13	0.92
STERN ATLAS	549.5	9	2165.7	8	21.6	NM	77.7	NM	3.9	NM	6.2	22	1.60
: HEALTH CARE													
DUSTRY COMPOSITE	**56822.8**	**16**	**212595.7**	**12**	**3999.1**	**68**	**19230.0**	**28**	**7.0**	**4.9**	**23.7**	**18**	**2.43**
DRUG DISTRIBUTION													
OUP COMPOSITE	**13967.7**	**16**	**53214.6**	**10**	**-145.5**	**NM**	**423.8**	**-46**	**NM**	**1.0**	**7.8**	**37**	**0.91**
RGEN BRUNSWIG (3)	1983.9**	8	7632.7	NA	13.5	31	59.3	NA	0.7	0.6	12.8	17	1.52
RDINAL HEALTH (6)	1985.9	42	6905.8	NA	20.9	38	44.6	NA	1.1	1.1	8.9	43	1.12
KERD (11)	1061.7	9	4428.0	8	0.6	NM	69.5	189	0.1	NM	NM	12	2.16
'S (11)	260.6	15	1007.1	9	2.2	1	12.6	34	0.8	1.0	12.5	10	0.62
IGS DRUG STORES (11)	614.5	3	2547.7	3	6.4	-28	48.4	-2	1.0	1.5	9.5	14	2.34
KESSON (9)	3350.0**	4	13017.9	8	-276.3	NM	-192.4	NM	NM	0.8	-33.4	NM	-4.61

COMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS EARNING PER SHARE
PERRY DRUG STORES (2)	184.6	5	737.1	6	1.2	NM	6.1	NM	0.6	NM	10.8	21	0.51
REVCO D. S. (7)	1027.2	88	3158.3	34	5.0	52	43.5	95	0.5	0.6	6.0	28	0.83
RITE AID (10)	1093.8	8	4257.5	6	26.9	30	40.4	–66	2.5	2.1	4.2	52	0.50
WALGREEN (4)	2405.6	14	9522.6	12	54.0	22	291.7	17	2.2	2.1	18.2	20	2.36
(B) DRUGS & RESEARCH GROUP COMPOSITE	**20341.9**	**15**	**74956.0**	**13**	**2657.8**	**59**	**12300.0**	**29**	**13.1**	**9.5**	**28.2**	**17**	**3.14**
ALLERGAN	270.2	17	947.2	10	34.8	14	110.7	6	12.9	13.2	18.4	17	1.73
AMERICAN HOME PRODUCTS	2585.8	22	8966.2	8	399.5	4	1528.3	4	15.5	18.1	37.2	14	4.97
AMGEN	442.9	21	1647.9	20	4.8	–95	319.7	–15	1.1	24.9	24.2	30	2.29
BRISTOL-MYERS SQUIBB	3247.5	9	11983.6	5	98.6	–61	1842.4	–6	3.0	8.6	29.9	17	3.62
GENENTECH	207.8**	29	795.4	22	18.6	0	124.4	111	8.9	11.5	9.7	47	1.04
LILLY (ELI)	1548.4	6	5711.6	10	269.6	NM	1185.1	155	17.4	NM	23.8	16	4.10
MARION MERRELL DOW	805.0	9	3060.0	9	108.0	–7	438.0	21	13.4	15.6	20.2	16	1.57
MERCK	3871.5	29	14969.8	43	772.9	15	2997.0	38	20.0	22.5	26.6	17	2.38
PFIZER	2300.2	16	8281.3	11	334.0	16	1298.4	97	14.5	14.5	31.3	19	4.19
RHONE-POULENC RORER	1290.3	14	4174.6	4	168.4	31	351.0	–17	13.1	11.3	22.5	16	2.45
SCHERING-PLOUGH	1179.7	11	4657.1	7	203.8	8	922.0	12	17.3	17.7	50.1	16	4.82
UPJOHN	872.0	0	3344.5	–1	107.2	–31	489.1	23	12.3	17.8	20.6	12	2.75
WARNER-LAMBERT	1720.8	12	6416.9	11	137.6	NM	693.9	143	8.0	NM	39.6	16	5.17
(C) HEALTH-CARE SERVICES GROUP COMPOSITE	**10020.4**	**20**	**37174.6**	**16**	**393.3**	**–2**	**1595.5**	**14**	**3.9**	**4.8**	**14.2**	**21**	**1.27**
AMERICAN MEDICAL HOLDINGS (4)	632.2	13	2455.7	9	23.0	40	145.6	100	3.6	3.0	16.7	13	1.89
BEVERLY ENTERPRISES	764.7	4	2969.2	3	19.3	19	76.9	33	2.5	2.2	10.4	17	0.79
CAREMARK INTERNATIONAL	636.3	38	2426.0	36	27.1	22	80.4	3	4.3	4.8	17.4	17	1.08
CHARTER MEDICAL (3)	263.8	26	959.7	9	0.3	NM	–42.8	NM	0.1	NM	–76.1	NM	–1.59
CONTINENTAL MEDICAL SYSTEMS (6)	245.6	–1	995.1	2	–5.7	NM	–45.8	NM	NM	1.5	–19.3	NM	–1.20
FHP INTERNATIONAL (6)	954.4	61	3214.2	42	21.3	108	79.9	50	2.2	1.7	5.9	15	1.80
FOUNDATION HEALTH (6)	598.5	–6	1939.1	–7	–49.3	NM	13.0	–85	NM	4.3	2.0	36	0.85
HEALTHTRUST (4)	969.9	56	3317.9	37	49.9	29	184.3	31	5.1	6.2	17.1	17	2.06
HILLHAVEN (7)	384.9	5	1494.4	6	16.2	–38	52.3	–5	4.2	7.1	12.0	16	1.63
HUMANA	920.0**	16	3576.0	14	48.0	66	176.0	98	5.2	3.7	17.3	22	1.10
MANOR CARE (7)	324.2	14	1239.5	15	25.0	24	87.7	27	7.7	7.1	15.1	22	1.40
NATIONAL MEDICAL ENTERPRISES (7)	638.8	–16	2723.6	–13	46.2	–25	212.3	–15	7.2	8.1	14.8	12	1.27
NOVACARE (6)	232.2	18	880.2	28	8.9	–5	55.1	20	3.8	4.8	12.9	11	0.86
ORNDA HEALTHCORP (4)	418.0	56	1423.8	31	13.4	570	–35.7	NM	3.2	0.7	–11.8	NM	–0.95
OXFORD HEALTH PLANS	234.4**	145	720.7	131	8.6	83	27.9	87	3.7	4.9	23.7	56	1.64
PACIFICARE HEALTH SYSTEMS (3)	826.5**	27	3096.5	29	20.1	36	89.9	35	2.4	2.3	20.9	22	3.20
QUORUM HEALTH GROUP (6)	198.9	14	768.6	74	13.8	43	47.4	108	6.9	5.5	14.8	18	1.09
U. S. HEALTHCARE	776.9**	14	2974.5	12	107.2	17	391.1	31	13.8	13.4	46.4	19	2.42
(D) MEDICAL PRODUCTS GROUP COMPOSITE	**12492.9**	**14**	**47250.4**	**10**	**1093.5**	**450**	**4910.8**	**44**	**8.8**	**1.8**	**23.5**	**19**	**2.18**
ABBOTT LABORATORIES	2481.9	11	9156.0	9	422.6	8	1516.7	8	17.0	17.6	38.3	19	1.8
BARD (C. R.)	262.6	6	1018.2	5	6.0	–85	74.9	21	2.3	16.2	17.0	19	1.4
BAUSCH & LOMB	479.1	–2	1850.6	1	–62.9	NM	13.5	–91	NM	4.3	1.3	NM	0.2
BAXTER INTERNATIONAL	2500.0	4	9324.0	5	172.0	NM	596.0	NM	6.9	NM	16.3	14	2.1
BECTON, DICKINSON (3)	593.5	7	2598.9	6	33.5	31	235.0	9	5.7	4.6	15.8	16	3.18
JOHNSON & JOHNSON	4090.0	16	15734.0	11	378.0	13	2006.0	12	9.2	9.5	28.7	18	3.1
MALLINCKRODT GROUP (6)	516.3	11	2032.9	10	40.6	11	110.7	NM	7.9	7.9	10.6	23	1.4
MEDTRONIC (8)	408.2	23	1539.5	16	69.7	24	258.5	20	17.1	16.9	22.8	25	2.2
OWENS & MINOR	730.2	94	2395.8	72	6.8	21	7.9	–57	0.9	1.5	3.4	93	0.1
STRYKER	204.6	41	681.9	22	21.3	20	72.4	20	10.4	12.2	21.2	27	1.5
U. S. SURGICAL	226.5	–7	918.7	–11	5.9	NM	19.2	NM	2.6	NM	0.7	NM	0.0
13 HOUSING & REAL ESTATE INDUSTRY COMPOSITE	**8947.2**	**13**	**34220.7**	**13**	**418.0**	**75**	**1553.3**	**36**	**4.7**	**3.0**	**15.9**	**15**	**1.9**
(A) BUILDING MATERIALS GROUP COMPOSITE	**6275.4**	**16**	**24318.5**	**11**	**343.5**	**138**	**1216.0**	**43**	**5.5**	**2.7**	**17.7**	**17**	**1.9**
LAFARGE	403.7	2	1563.3	5	32.2	NM	80.6	NM	8.0	0.6	9.7	14	1.1
OWENS-CORNING FIBERGLAS	886.0	18	3351.0	14	43.0	30	74.0	–30	4.9	4.4	NM	20	1.7
PPG INDUSTRIES	1659.7	20	6331.2	10	151.0	180	514.6	74	9.1	3.9	19.1	15	2.4
RPM (7)	253.2	25	910.7	15	15.3	10	57.1	23	6.0	6.9	17.1	19	1.0
SHERWIN-WILLIAMS	703.6	5	3100.1	5	30.7	16	186.6	13	4.4	4.0	17.7	16	2.1
TECUMSEH PRODUCTS	367.2	22	1533.4	17	28.5	37	120.3	48	7.8	6.9	15.3	9	5.5
TEXAS INDUSTRIES (7)	204.0**	17	776.8	19	12.0	115	41.5	375	5.9	3.2	11.2	10	3.4
USG	601.0	21	2290.0	NA	–35.0	NM	–92.0	NA	NM	NM	NM	NM	–2.1
VALSPAR (2)	192.3	6	786.8	13	12.4	2	45.5	13	6.4	6.8	26.1	17	2.0
VULCAN MATERIALS	349.4	24	1253.4	11	31.9	55	98.0	11	9.1	7.3	13.2	19	2.6
YORK INTERNATIONAL	655.3	16	2421.9	19	21.6	22	89.8	19	3.3	3.1	17.6	15	2.4
(B) CONSTRUCTION & REAL ESTATE GROUP COMPOSITE	**2671.7**	**7**	**9902.2**	**16**	**74.5**	**–21**	**337.4**	**14**	**2.8**	**3.8**	**11.5**	**9**	**2.0**
CENTEX (9)	793.2**	0	3350.9	17	13.1	–45	105.1	33	1.6	3.0	15.6	7	3.3
KAUFMAN & BROAD HOME (1)	404.5	8	1336.3	8	15.7	4	46.6	17	3.9	4.0	8.9	12	1.1
LENNAR (1)	220.5**	–8	821.1	23	16.9	–19	68.2	30	7.7	8.7	13.2	9	1.8

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	P/E RATIO 2-10	12 MONTHS EARNINGS
ULTE	534.8**	20	1755.9	18	17.2	–12	62.4	12	3.2	4.4	9.3	10	2.24
YLAND GROUP	445.7	4	1642.7	11	2.3	–70	22.4	NM	0.5	1.8	6.8	11	1.29
S. HOME	273.1**	23	995.3	23	9.4	17	32.8	–54	3.4	3.6	12.7	6	2.89
4 LEISURE TIME INDUSTRIES													
DUSTRY COMPOSITE	22756.8	14	79209.5	13	1424.7	2858	5688.8	88	6.3	0.2	18.4	21	1.62
) EATING PLACES													
ROUP COMPOSITE	6779.7	8	24046.5	10	457.6	NM	1710.3	576	6.8	NM	23.6	20	1.47
IB EVANS FARMS (8)	194.4	10	735.9	7	14.2	14	51.3	12	7.3	7.0	13.8	17	1.22
INKER INTERNATIONAL (6)	246.6	15	954.6	20	16.1	22	68.5	21	6.5	6.2	15.2	23	0.91
ACKER BARREL OLD COUNTRY STORE (5)	184.9	21	673.3	23	15.6	17	59.2	21	8.4	8.8	13.3	23	0.98
AGSTAR	659.5	–2	2666.0	2	4.5	NM	–16.8	NM	0.7	NM	NM	NM	–0.14
ARRIOTT INTERNATIONAL	2704.0	8	8415.0	13	72.0	29	200.0	26	2.7	2.2	27.0	20	1.51
DONALD'S	2270.1	18	8320.8	12	308.9	17	1224.4	13	13.6	13.7	18.6	20	1.68
ORRISON RESTAURANTS (7)	252.5**	–19	1114.6	–4	12.1	1	61.2	49	4.8	3.9	28.3	16	1.67
ONEY'S (2)	267.6**	–6	1166.2	2	14.3	0	62.6	8	5.3	5.0	NM	8	1.52
) HOTEL & MOTEL													
OUP COMPOSITE	1677.1	13	6503.3	18	152.8	48	586.6	31	9.1	6.9	14.7	23	1.65
ESARS WORLD (5)	252.5	–6	997.2	–2	23.2	–17	73.7	–23	9.2	10.4	12.7	22	3.00
RCUS CIRCUS ENTERPRISES (11)	306.6	24	1163.5	32	36.6	78	131.0	18	11.9	8.3	20.1	18	1.53
TON HOTELS	405.3**	10	1506.2	8	38.1	18	121.7	19	9.4	8.7	11.1	27	2.52
RAGE RESORTS	311.0	11	1254.2	32	31.7	NM	124.7	160	10.2	0.9	12.5	18	1.32
OMUS	401.7	26	1582.1	26	23.2	16	135.5	48	5.8	6.2	20.9	27	1.32
) OTHER LEISURE													
OUP COMPOSITE	14300.0	16	48659.9	13	814.3	8	3391.9	46	5.7	6.1	17.3	21	1.71
ERICAN GREETINGS (10)	551.0	6	1841.9	6	58.9	14	144.9	16	10.7	9.9	12.8	15	1.95
UNSWICK	654.9	22	2700.1	22	18.0	157	129.0	137	2.7	1.3	14.4	14	1.35
RNIVAL (1)	410.5	26	1806.0	16	70.1	40	381.8	20	17.1	15.4	20.3	16	1.35
NEY (WALT) (3)	3301.7	21	10629.5	20	482.4	31	1224.2	60	14.6	13.5	22.2	23	2.27
STMAN KODAK	3908.0	11	13687.0	6	–79.0	NM	554.0	–14	NM	6.2	13.6	31	1.65
ETWOOD ENTERPRISES (8)	710.4	25	2739.2	30	21.2	24	85.7	46	3.0	3.0	14.7	11	1.84
RLEY-DAVIDSON	412.7	25	1541.8	27	25.1	NM	104.3	466	6.1	NM	25.9	20	1.37
RMAN INTERNATIONAL INDUSTRIES (6)	288.7	30	993.1	36	12.2	61	34.2	91	4.2	3.4	14.4	17	2.27
SBRO	940.6	1	2670.3	–3	75.8	7	179.3	–10	8.1	7.6	13.3	16	2.01
TTEL	1030.4	37	3205.0	19	42.9	NM	255.8	88	4.2	NM	22.2	20	1.12
ISICLAND STORES	633.9	31	1478.8	25	24.2	–30	17.4	–45	3.8	7.2	5.5	19	0.51
TBOARD MARINE (3)	242.6	27	1130.2	8	–3.1	NM	54.7	NM	NM	NM	26.2	8	2.72
LAROID	685.9	2	2312.5	3	57.3	46	117.2	73	8.4	5.8	14.5	12	2.49
YAL CARIBBEAN CRUISES	281.9	7	1171.4	5	21.0	14	142.3	33	7.4	7.0	18.0	12	2.25
CO TOYS	246.8	0	753.1	3	–12.7	NM	–33.0	NM	NM	NM	–11.9	NM	–1.01
; MANUFACTURING													
DUSTRY COMPOSITE	36180.6	16	132616.1	13	2244.6	92	7724.7	45	6.2	3.8	18.1	16	2.26
GENERAL MANUFACTURING													
OUP COMPOSITE	12822.5	16	47538.0	12	929.6	58	3246.1	26	7.3	5.3	16.7	19	1.98
ERY DENNISON	736.7	15	2856.7	10	28.5	48	109.4	31	3.9	3.0	14.4	20	1.97
RNING	1280.7**	17	4799.2	19	35.0	NM	281.3	NM	2.7	NM	12.3	24	1.32
ANE	441.9	37	1653.5	26	16.9	75	55.9	14	3.8	3.0	17.6	15	1.86
RACELL INTERNATIONAL (6)	730.2	11	1995.5	12	111.1	12	220.8	67	15.2	15.0	17.7	23	1.82
DE (9)	436.8	135	1020.4	60	10.5	38	22.2	52	2.4	4.1	12.9	36	1.49
ERAL SIGNAL	193.8	31	677.2	20	13.8	21	46.8	18	7.1	7.7	22.0	20	1.02
ST BRANDS (6)	233.0	–14	1033.3	–2	11.8	–28	54.3	–2	5.1	6.1	15.2	14	2.47
RSCO	385.7**	–6	1465.8	1	28.0	74	86.6	7	7.3	4.0	15.3	12	3.45
LENBRAND INDUSTRIES (1)	439.1	12	1577.0	9	40.6	22	89.5	–32	9.2	8.5	13.5	22	1.26
NOIS TOOL WORKS	937.9	17	3461.3	10	84.7	44	277.8	34	9.0	7.3	19.3	18	2.45
TENS (6)	189.9	–4	802.1	–4	11.7	105	–19.8	NM	6.2	2.9	–7.7	NM	–0.44
RK IV INDUSTRIES (10)	397.3	24	1438.1	20	16.5	29	61.9	28	4.2	4.0	13.1	14	1.43
NNESOTA MINING & MFG.	3855.0	11	15079.0	8	332.0	16	1322.0	5	8.6	8.2	19.6	17	3.13
WELL	584.7	21	2074.9	26	62.1	12	195.6	18	10.6	11.5	18.1	19	1.24
KER HANNIFIN (6)	738.2	25	2827.4	13	41.1	192	106.8	66	5.6	2.4	10.6	22	2.18
BBERMAID†	566.3	20	2169.4	11	54.6	7	228.1	8	9.6	10.8	17.8	22	1.42
EFLEX	218.8	23	812.7	22	12.7	27	41.2	22	5.8	5.6	13.9	15	2.35
NOVA	456.4	14	1794.7	9	18.1	300	65.9	527	4.0	1.1	20.6	12	2.26
MACHINE & HAND TOOLS													
OUP COMPOSITE	3372.3	15	11742.5	11	181.6	57	528.0	42	5.4	3.9	14.1	16	1.78
CK & DECKER	1619.2	13	5248.3	8	60.5	43	127.4	34	3.7	3.0	12.1	19	1.37
AHER	355.1**	24	1288.7	20	24.8	51	81.7	52	7.0	5.7	19.2	19	1.40
DINGS & LEWIS	185.5	55	619.5	20	24.0	120	47.9	10	12.9	9.1	10.3	12	1.40
NAMETAL (6)	230.3	18	880.9	30	11.9	190	47.4	NM	5.2	2.1	14.2	15	1.80
AP-ON	318.4**	0	1194.3	6	26.7	9	98.3	15	8.4	7.7	13.0	15	2.30
NLEY WORKS	663.8	15	2510.9	10	33.8	92	125.3	35	5.1	3.0	16.9	15	2.80

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS EARNING PER SHARE
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	**17282.1**	**18**	**62838.9**	**16**	**1012.7**	**101**	**3579.0**	**79**	**5.9**	**3.4**	**21.2**	**13**	**3.08**
[illegible]	472.4	176	1359.0	128	53.3	281	115.5	239	11.3	8.2	25.6	5	6.13
APPLIED MATERIALS (2)	467.8	43	1659.8	54	63.1	83	213.7	114	13.5	10.5	22.1	18	2.51
BRIGGS & STRATTON (6)	366.7	11	1352.6	14	33.7	18	112.6	34	9.2	8.7	27.6	9	3.90
CATERPILLAR	3928.0	24	14328.0	23	279.0	89	955.0	40	7.1	4.7	34.1	11	4.70
CLARK EQUIPMENT	249.7	43	946.6	37	19.9	31	62.8	114	8.0	8.7	13.9	15	3.61
DEERE (2)	2516.2**	16	9029.8	16	169.6	55	603.6	227	6.7	5.0	23.6	11	7.01
DOVER	838.9	23	3085.3	24	55.5	31	202.4	28	6.6	6.2	20.4	17	3.54
DRESSER INDUSTRIES (2)	1525.7	3	5307.3	4	80.5	40	361.8	171	5.3	3.9	22.2	10	1.98
FMC	1039.2	10	4010.9	7	25.3	NM	173.4	323	2.4	NM	44.2	13	4.66
GENERAL SIGNAL	416.7	19	1527.7	13	29.1	40	104.1	6	7.0	5.9	18.1	16	2.20
HARNISCHFEGER INDUSTRIES (2)	345.8**	36	1139.9	14	9.9	68	19.1	NM	2.9	2.3	4.4	37	0.74
INGERSOLL-RAND	1239.7	14	4507.5	12	78.2	15	211.2	29	6.3	6.2	14.5	16	2.00
INTERLAKE	207.4	22	752.6	10	–33.9	NM	–40.6	NM	NM	NM	NM	NM	-1.84
McDERMOTT INTERNATIONAL (9)†	715.5	–10	2979.5	–2	29.8	94	41.5	–60	4.2	1.9	6.4	41	0.61
PENTAIR	441.9	30	1649.2	24	16.9	21	53.6	15	3.8	4.1	13.0	17	2.62
STEWART & STEVENSON SERVICES (11)	304.2	17	1095.2	14	17.6	25	66.0	24	5.8	5.4	16.4	16	2.00
TIMKEN	503.5	15	1930.4	13	25.8	NM	68.5	NM	5.1	NM	9.5	15	2.21
TYCO INTERNATIONAL (6)	1097.7	10	3821.8	8	26.6	–39	147.4	37	2.4	4.3	13.1	19	2.53
VARITY (11)	605.0	31	2355.9	9	32.7	73	107.5	84	5.4	4.1	13.1	15	2.37
(D) TEXTILES													
GROUP COMPOSITE	**2703.7**	**9**	**10496.7**	**6**	**120.7**	**NM**	**371.7**	**–3**	**4.5**	**NM**	**13.0**	**19**	**0.96**
BURLINGTON INDUSTRIES (3)	514.8	9	2170.0	5	12.8	–32	93.2	20	2.5	4.0	16.2	8	1.37
COLLINS & AIKMAN (11)	403.7	21	1496.1	NA	31.0	NM	33.6	NA	7.7	NM	NM	NM	1.66
CONE MILLS	205.1	15	806.2	5	7.3	–36	35.8	–28	3.6	6.4	17.0	9	1.19
FIELDCREST CANNON	297.4	5	1063.7	6	10.1	16	30.7	105	3.4	3.1	12.3	7	3.02
MOHAWK INDUSTRIES	362.2	4	1437.4	21	7.6	–37	33.0	–16	2.1	3.5	12.5	14	0.99
SPRINGS INDUSTRIES	533.2	2	2068.9	2	23.7	53	62.2	32	4.5	3.0	10.7	11	3.50
UNIFI (6)	387.3	10	1454.4	4	28.1	15	83.1	–30	7.3	6.9	13.6	24	1.17
16 METALS & MINING													
INDUSTRY COMPOSITE	19336.2	18	71983.3	14	1300.2	NM	2691.0	NM	6.7	NM	12.3	18	1.41
(A) ALUMINUM													
GROUP COMPOSITE	**6082.3**	**18**	**22569.2**	**10**	**427.9**	**NM**	**393.4**	**NM**	**7.0**	**NM**	**5.3**	**38**	**1.25**
ALUMAX	772.3	30	2754.5	17	42.8	NM	46.7	NM	5.5	NM	3.3	32	0.84
ALUMINUM CO. OF AMERICA	2641.8	14	9904.3	9	368.0	NM	443.1	NM	13.9	NM	12.4	16	4.96
KAISER ALUMINUM	445.8	7	1781.5	4	–27.7	NM	–101.4	NM	NM	NM	NM	NM	–2.09
MAXXAM	538.0	7	2115.7	4	–24.1	NM	–116.7	NM	NM	NM	NM	NM	–12.39
REYNOLDS METALS	1684.4**	24	6013.2	14	68.9	NM	121.7	NM	4.1	NM	5.2	36	1.47
(B) STEEL													
GROUP COMPOSITE	**9555.7**	**13**	**36439.4**	**11**	**574.0**	**NM**	**1489.8**	**NM**	**6.0**	**NM**	**21.4**	**11**	**1.60**
AK STEEL HOLDING	554.4	32	2016.6	26	186.4	NM	272.5	NM	33.6	NM	1735.7	3	10.19
ALLEGHENY LUDLUM	328.5	22	1076.9	–2	18.9	9	18.2	–74	5.8	6.5	4.9	77	0.20
ARMCO	335.1	–8	1437.6	–14	9.6	NM	77.7	NM	2.9	NM	NM	11	0.55
BETHLEHEM STEEL	1224.5	8	4819.4	11	31.3	NM	80.5	NM	2.6	NM	3.5	46	0.33
BIRMINGHAM STEEL (6)	203.2	38	852.3	68	12.4	229	38.8	294	6.1	2.6	8.6	15	1.33
COMMERCIAL METALS (4)	413.7**	8	1698.2	5	6.4	11	26.8	9	1.5	1.5	9.8	13	1.83
INLAND STEEL INDUSTRIES	1156.2	18	4497.0	16	35.9	NM	107.4	NM	3.1	NM	15.4	17	1.83
LTV	1205.4	8	4529.2	9	40.2	–84	127.1	–67	3.3	22.1	14.1	12	1.22
LUKENS	252.4	[illegible]	947.0	10	10.7	NM	22.2	69	4.2	NM	7.5	21	1.33
NATIONAL STEEL	743.3	27	2700.3	12	27.2	NM	168.5	NM	3.7	NM	55.0	4	4.33
QUANEX (2)	196.5	[illegible]	699.3	14	7.5	124	18.9	124	3.8	2.1	8.8	23	0.93
ROUGE STEEL	302.0	7	1236.1	15	29.1	292	105.6	99	9.6	2.6	40.0	5	5.22
USX–U. S. STEEL GROUP	1643.0	6	6066.0	8	90.0	–27	201.0	NM	5.5	8.0	19.3	14	2.33
WEIRTON STEEL	304.3	1	1260.9	5	21.8	474	39.0	NM	7.2	1.3	NM	8	1.03
WHX	329.8	21	1193.9	14	18.3	33	86.4	181	5.6	5.1	10.9	5	2.55
WORTHINGTON INDUSTRIES (7)	363.3	23	1408.9	19	28.3	46	99.3	28	7.8	6.6	18.3	18	1.11
(C) OTHER METALS													
GROUP COMPOSITE	**3698.2**	**32**	**12974.8**	**29**	**298.3**	**410**	**807.8**	**256**	**8.1**	**2.1**	**10.2**	**22**	**1.1**
ASARCO	588.1	35	2031.8	17	48.2	NM	64.0	NM	8.2	NM	4.2	18	1.5
CYPRUS AMAX MINERALS	731.0	35	2788.0	58	67.0	NM	166.0	66	9.2	NM	6.5	17	1.5
FREEPORT-McMORAN	561.2	16	1982.4	23	23.9	NM	72.6	NM	4.3	NM	NM	48	0.3
FREEPORT-McMORAN COPPER & GOLD	351.3	11	1212.3	31	55.2	36	130.2	115	15.7	12.8	21.0	56	0.3
HANDY & HARMAN	198.2	12	781.4	19	3.5	57	16.5	86	1.8	1.3	16.0	13	1.1
MAGMA COPPER	267.5	37	889.6	12	36.9	307	87.4	283	13.8	4.6	10.4	10	1.5
PHELPS DODGE	1000.8	53	3289.2	27	63.6	[illegible]	271.0	44	6.4	6.4	12.6	14	3.8

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 12-31	12 MONTHS' EARNINGS PER
7 NONBANK FINANCIAL													
DUSTRY COMPOSITE	73826.3	4	283678.8	8	4795.5	8	18697.1	–2	6.5	6.2	12.9	13	3.19
) FINANCIAL SERVICES													
ROUP COMPOSITE	37135.7	5	140932.6	14	2538.5	–28	10888.7	–15	6.8	10.0	15.8	12	3.57
IERICAN EXPRESS	3802.0	–14	14282.0	1	335.0	15	1380.0	–14	8.8	6.6	20.5	12	2.68
&T CAPITAL	377.5	–2	1384.1	2	40.6	2	100.3	40	10.8	10.4	10.0	12	2.14
AR STEARNS (6)	826.7	–17	3304.3	–3	32.9	–76	216.2	–54	4.0	13.5	11.2	12	1.57
NEFICIAL	561.1	13	2137.4	9	47.2	9	215.7	16	8.4	8.7	16.2	10	4.00
UNTRYWIDE CREDIT INDUSTRIES (10)	199.6	–28	927.2	–1	16.2	–62	116.1	–32	8.1	15.6	12.5	12	1.26
AN WITTER, DISCOVER	1258.2**	–14	5005.7	10	140.0	1	740.9	23	11.1	9.4	18.4	9	4.35
WARDS (A. G.) (10)	289.1	–12	1208.3	–4	29.9	–27	132.1	–13	10.3	12.6	15.0	10	2.15
UIFAX	400.7	21	1422.0	17	36.4	27	120.3	89	9.1	8.6	40.2	19	1.62
NNIE MAE	5037.0**	19	18574.2	16	544.8	2	2141.3	5	10.8	12.6	23.3	10	7.80
DERAL HOME LOAN MORTGAGE	1944.0	22	6923.0	27	252.0	24	1027.0	31	13.0	12.8	21.9	11	5.32
ST FINANCIAL MANAGEMENT	704.5**	33	2207.5	25	55.9	21	160.2	22	7.9	8.8	11.7	26	2.56
ANKLIN RESOURCES (3)	215.6**	9	844.0	19	63.3	7	255.6	28	29.4	29.7	27.5	13	3.06
USEHOLD INTERNATIONAL	1199.8	5	4603.3	3	111.0	19	367.6	23	9.3	8.1	16.0	12	3.52
HMAN BROTHERS HOLDINGS (1)	708.0	NA	NA	NA	46.0	NA	NA	NA	6.5	NA	NA	NA	NA
EWS	3371.4**	1	13515.2	–1	79.2	–43	267.8	–55	2.3	4.1	4.9	22	4.45
RSH & McLENNAN	857.4	10	3435.0	9	72.2	15	382.0	15	8.4	8.0	25.6	16	5.19
RRILL LYNCH	4483.8**	–1	18233.1	10	161.6	–53	1016.8	–27	3.6	7.7	17.6	8	4.75
RGAN STANLEY GROUP (11)	2485.0	3	9120.0	3	118.0	–35	537.2	–28	4.7	7.5	12.6	11	6.07
NEWEBBER GROUP	1039.2**	–3	3964.1	–1	–19.3	NM	31.6	–87	NM	5.3	2.6	39	0.41
LLIE MAE	895.6	35	3057.1	17	85.3	–42	412.1	–27	9.5	22.1	31.9	8	5.03
LOMON	1589.0**	–43	6339.0	–28	–122.0	NM	–364.0	NM	NM	17.2	–11.6	NM	–3.98
HWAB (CHARLES)	270.4**	5	1064.6	10	33.8	19	135.3	9	12.5	11.1	30.6	18	2.32
NAMERICA (3)†	239.4**	6	917.0	2	45.1	14	170.9	23	18.9	17.5	22.7	11	3.70
AVELERS	4380.7	103	18464.7	178	333.5	12	1325.5	39	7.6	13.8	15.8	10	3.86
INSURANCE													
OUP COMPOSITE	33658.4	1	131473.1	2	2027.2	132	7248.3	17	6.0	2.6	11.1	13	3.15
TNA LIFE & CASUALTY	4421.0**	5	17524.7	2	160.0	NM	467.5	NM	3.6	NM	8.0	13	4.14
AC	1636.1	23	6110.8	22	77.4	16	292.8	20	4.7	5.0	16.8	13	2.84
STATE	5430.0	3	21460.0	2	163.1	–37	483.8	–63	3.0	4.9	5.5	24	1.08
ERICAN BANKERS INSURANCE GROUP	302.1	6	1186.8	22	20.6	8	56.5	8	6.8	6.7	14.3	10	2.74
ERICAN RE	386.2	3	1678.5	16	34.4	18	97.5	–10	8.9	7.8	12.3	17	2.01
J	1080.4	11	4156.9	8	86.0	10	360.0	11	8.0	8.0	14.5	11	3.14
JBB	1470.0**	4	5709.5	4	155.9	–3	528.5	63	10.6	11.4	12.3	13	5.95
NA	4723.0**	–4	18392.0	0	182.0	–6	554.0	137	3.9	3.9	9.4	9	7.66
NSECO	498.2**	–22	1826.2	–31	1.9	–97	154.4	–50	0.4	9.9	27.2	9	5.15
ITABLE	1673.5**	–4	6447.3	–1	84.0	0	323.9	38	5.0	4.8	11.3	12	1.70
NERAL RE	982.6	12	3836.9	8	199.9	17	665.3	–5	20.3	19.5	13.5	16	7.97
FERSON-PILOT	334.6	6	1268.8	6	64.3	3	229.9	10	19.2	19.7	13.1	11	4.73
N ALDEN FINANCIAL	394.9	8	1505.7	7	19.2	14	86.0	7	4.9	4.6	21.1	9	3.33
MPER	360.5**	–28	1601.8	3	–3.6	NM	85.7	NM	NM	11.7	6.2	24	1.80
COLN NATIONAL	1871.5**	–16	6935.6	–17	93.7	197	349.9	–16	5.0	1.4	11.1	12	3.37
NL	409.3	6	1570.8	5	29.9	36	107.7	31	7.3	5.7	13.4	10	3.30
O CASUALTY	383.1	–4	1558.7	–7	4.7	–74	89.0	2	1.2	4.5	10.1	13	2.47
REPUBLIC INTERNATIONAL	410.1	–16	1679.0	–3	43.0	–15	150.9	–9	10.5	10.4	11.0	10	2.55
JL REVERE	338.3	9	1347.4	13	14.5	–39	91.8	7	4.3	7.7	8.3	7	2.04
GRESSIVE	664.8**	30	2415.3	24	100.9	89	274.3	3	15.2	10.5	26.5	11	3.59
TECTIVE LIFE	236.2	15	848.4	12	18.7	0	70.4	25	7.9	9.1	25.9	8	5.14
VIDENT LIFE & ACCIDENT	691.0**	–6	2762.2	–6	30.1	–55	135.3	NM	4.4	9.1	10.8	9	2.71
VIDIAN	753.2	4	3011.5	5	69.1	–25	300.9	–7	9.2	12.6	13.6	12	3.02
ECO	917.6**	3	3727.0	5	95.8	–26	314.4	–26	10.4	14.6	10.7	11	4.99
PAUL	1173.3	0	4701.3	5	120.8	35	442.8	4	10.3	7.7	15.8	9	5.12
TRIN	336.2	–3	1365.5	0	44.9	898	148.4	56	13.4	1.3	8.4	16	2.96
JM	927.8	7	3623.7	7	54.0	–35	154.7	–50	5.8	9.6	8.1	20	2.09
&G	853.0	7	3221.0	–1	62.0	5	232.0	83	7.3	7.4	20.0	7	2.14
SAVINGS & LOAN													
UP COMPOSITE	3032.3	12	11273.0	2	229.9	518	560.1	898	7.6	1.4	4.8	23	0.84
MANSON (H. F.)	911.3	14	3283.7	6	39.9	–20	237.4	NM	4.4	6.3	6.3	11	1.58
IFORNIA FEDERAL BANK	247.0	0	1109.3	2	13.0	NM	–149.4	NM	5.3	NM	–31.2	NM	–3.82
NDALE FEDERAL BANK (6)	309.8	25	1138.7	1	10.9	NM	–128.6	NM	3.5	NM	–15.9	NM	–4.00
DEN WEST FINANCIAL	504.0	4	1914.0	–1	47.1	–31	230.4	–16	9.3	14.0	11.5	10	3.71
AT WESTERN FINANCIAL	838.9	14	2997.6	0	88.7	NM	251.2	305	10.6	NM	9.3	11	1.69
NDARD FEDERAL BANK	221.3	14	829.7	8	30.3	–2	119.0	3	13.7	15.9	15.1	7	3.70
OFFICE EQUIPMENT & COMPUTERS													
USTRY COMPOSITE	70933.6	15	244203.3	13	4499.4	151	11755.2	NM	6.3	2.9	13.7	25	1.73
BUSINESS MACHINES & SERVICES													
OUP COMPOSITE	5308.7	19	19105.3	20	240.9	–8	914.5	14	4.5	6.5	18.2	18	1.46
MPUCOM SYSTEMS	361.7	14	1255.8	24	5.4	30	14.7	28	1.5	1.3	21.6	8	0.40
INTERNATIONAL (11)	261.4	18	990.9	18	30.2	33	110.0	38	11.6	10.3	27.8	39	0.94
UXE	478.9	9	1747.9	11	40.0	–21	140.9	–1	8.4	11.5	17.3	16	1.71
BOLD	207.1	17	760.2	22	17.9	18	63.5	31	8.7	8.6	14.0	17	2.09

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS EARNING PER SHARE
EGGHEAD (9)	254.3	14	837.3	10	3.8	163	1.4	–36	1.5	0.7	1.0	NM	0.08
HON INDUSTRIES	230.1	8	846.0	8	18.0	8	54.4	22	7.8	7.8	29.0	16	1.74
INTELLIGENT ELECTRONICS (11)	831.1	23	3126.7	26	–3.0	NM	25.2	–28	NM	1.6	12.1	14	0.70
MICROAGE (2)	637.4	NA	2220.8	NA	3.5	NA	16.3	NA	0.6	NA	9.8	9	1.22
MILLER (HERMAN) (7)	279.1	15	1021.7	12	1.4	–87	31.1	–11	0.5	4.6	10.2	19	1.24
PITNEY BOWES	900.5	8	3270.6	9	94.4	–7	348.4	14	10.5	12.1	20.0	15	2.21
REYNOLDS & REYNOLDS (3)	208.7	8	824.9	14	18.9	31	70.7	28	9.1	7.5	24.1	16	1.62
TECH DATA (11)	658.3	63	2202.5	61	10.3	29	37.9	40	1.6	2.0	14.9	13	1.00
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	**54068.1**	**13**	**184107.3**	**11**	**2910.5**	**567**	**6294.4**	**NM**	**5.4**	**0.9**	**10.3**	**23**	**1.99**
AMDAHL	498.7	13	1638.6	–3	40.9	NM	74.8	NM	8.2	NM	9.0	17	0.63
APPLE COMPUTER (3)	2832.0	15	9551.9	13	188.0	370	458.2	NM	6.6	1.6	17.9	11	3.81
AST RESEARCH (6)	640.2	–5	2311.5	17	–22.3	NM	–34.9	NM	NM	2.6	–10.1	NM	–1.09
COMPAQ COMPUTER	3251.0	48	10866.0	51	243.0	61	867.0	88	7.5	6.8	23.6	12	3.23
CONNER PERIPHERALS	591.6	3	2365.2	10	44.2	423	109.7	NM	7.5	1.5	38.3	5	2.10
CRAY RESEARCH	237.1	–22	921.6	3	9.5	61	55.7	–8	4.0	8.0	6.8	7	2.16
DATA GENERAL (3)	282.2	8	1141.5	8	24.2	NM	–42.4	NM	8.6	NM	–12.8	NM	–1.23
DELL COMPUTER (11)	884.6	17	3185.6	16	41.4	245	106.6	NM	4.7	1.6	16.8	18	2.40
DIGITAL EQUIPMENT (6)	3473.3	7	13777.5	1	18.9	NM	–2105.8	NM	0.5	NM	–67.9	NM	–15.35
EMC	430.7	73	1377.5	76	77.9	66	250.7	97	18.1	18.8	40.6	15	1.18
GATEWAY 2000	824.3	51	2701.2	56	39.3	–14	96.0	–37	4.8	8.3	28.6	17	1.22
HEWLETT-PACKARD (2)	7002.0	23	24991.0	23	476.0	60	1599.0	36	6.8	5.2	16.1	17	6.14
INTERGRAPH	296.7	11	1041.4	–1	–18.5	NM	–70.2	NM	NM	NM	–13.0	NM	–1.56
INTERNATIONAL BUSINESS MACHINES	19896.0	3	64052.0	2	1231.0	222	3021.0	NM	6.2	2.0	13.7	15	5.02
MAXTOR (9)	238.2	–25	891.2	–28	–16.4	NM	–87.8	NM	NM	NM	NM	NM	–1.77
QUANTUM (9)	932.7	78	3019.1	51	–48.3	NM	97.0	NM	NM	1.2	20.2	7	2.01
SEAGATE TECHNOLOGY (6)	1129.6	38	3973.0	28	79.3	85	248.1	64	7.0	5.2	18.5	8	3.39
SILICON GRAPHICS (6)	524.0	41	1761.0	40	53.9	48	174.3	52	10.3	9.8	18.6	30	1.11
STORAGE TECHNOLOGY	516.1	29	1625.0	16	28.1	343	41.4	NM	5.4	1.6	2.8	35	0.60
SUN MICROSYSTEMS (6)	1475.3	30	5347.5	19	81.6	86	255.4	36	5.5	3.9	14.4	12	2.63
TANDEM COMPUTERS (3)	534.6	12	2167.1	7	35.2	41	180.5	NM	6.6	5.2	19.2	11	1.54
3COM (7)	304.8	48	1013.7	46	2.6	–88	–45.2	NM	0.9	10.5	–13.8	NM	–0.7
UNISYS	2123.5	1	7399.7	–4	–52.3	NM	108.2	–70	NM	5.6	–1.1	NM	–0.0
WESTERN DIGITAL (6)	551.9	49	1899.6	50	42.6	241	143.0	NM	7.7	3.4	43.8	5	3.0
XEROX	4597.0**	13	15088.0	6	311.0	NM	794.0	NM	6.8	NM	17.7	16	6.7
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	**11556.9**	**24**	**40990.7**	**21**	**1348.0**	**22**	**4546.3**	**29**	**11.7**	**11.8**	**22.3**	**28**	**1.5**
AUTOMATIC DATA PROCESSING (6)	672.6**	16	2634.2	13	94.9	18	359.1	16	14.1	13.9	20.6	24	2.5
BAY NETWORKS (6)	314.2	14	837.9	31	–3.6	NM	70.4	–1	NM	13.4	11.6	37	0.8
CABLETRON SYSTEMS (10)	210.0	34	752.9	36	41.8	34	150.0	36	19.9	19.9	27.7	20	2.1
CERIDIAN	234.1	3	916.3	3	20.8	NM	78.6	NM	8.9	NM	40.1	21	1.4
CISCO SYSTEMS (5)	392.9	58	1387.4	80	98.8	56	350.2	73	25.1	25.6	37.1	27	1.3
COMDISCO (3)	524.0**	–2	2086.0	–2	25.0	9	55.0	–39	4.8	4.3	7.2	21	1.2
COMPUSA (6)	761.8	42	2519.7	46	9.7	NM	–3.7	NM	1.3	NM	–2.6	NM	–0.2
COMPUTER ASSOCIATES INTERNATIONAL (9)	721.0	26	2454.7	19	174.2	40	377.8	11	24.2	21.6	28.7	25	2.2
COMPUTER SCIENCES (9)	827.9	33	3085.4	23	26.7	23	104.3	24	3.2	3.5	12.1	25	2.0
ELECTRONIC ARTS (9)	216.7	45	484.3	22	23.8	32	53.6	28	11.0	12.1	27.7	21	1.0
ELECTRONIC DATA SYSTEMS	2914.2	26	10052.4	17	236.5	17	821.9	14	8.1	8.8	20.2	23	1.7
FIRST DATA	434.4	13	1652.2	11	64.0	21	208.1	20	14.7	13.8	19.3	28	1.8
LOTUS DEVELOPMENT	264.5	–5	970.7	–1	14.4	–51	–20.9	NM	5.5	10.6	–3.8	NM	–0.4
MICROSOFT (6)	1482.0	31	5266.0	28	373.0	29	1307.0	26	25.2	25.6	29.5	29	2.1
NOVELL (2)	485.9	–5	1998.1	9	20.4	–80	206.7	408	4.2	20.2	13.9	37	0.5
ORACLE SYSTEMS (7)	670.3	48	2377.7	40	93.9	51	339.3	72	14.0	13.7	41.2	38	1.1
SYBASE	214.4	56	693.8	63	28.5	60	75.2	70	13.3	12.9	22.3	33	1.3
WANG LABORATORIES (6)	216.1	–7	820.9	NA	5.1	4	13.6	NA	2.4	2.1	2.1	81	0.1
19 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	**24613.3**	**15**	**91194.2**	**8**	**1212.7**	**1149**	**3241.2**	**NM**	**4.9**	**0.5**	**9.0**	**21**	**2.0**
(A) FOREST PRODUCTS													
GROUP COMPOSITE	**6490.6**	**10**	**24905.3**	**8**	**376.8**	**925**	**868.7**	**161**	**5.8**	**0.6**	**11.4**	**18**	**2.4**
BOISE CASCADE	1108.9	11	4140.4	5	25.9	NM	–62.6	NM	2.3	NM	–13.9	NM	–3.0
GEORGIA-PACIFIC	3342.0	4	12782.0	4	169.0	NM	326.0	NM	5.1	NM	13.2	20	3.6
LOUISIANA-PACIFIC	748.4	18	3039.5	21	84.7	42	346.9	36	11.3	9.4	19.1	9	3.1
RAYONIER	275.0	16	1069.5	14	17.8	470	70.0	34	6.5	1.3	10.9	12	2.3
UNIVERSAL FOREST PRODUCTS	197.6**	26	866.0	34	2.1	25	10.7	7	1.1	1.1	15.3	12	0.6
WILLAMETTE INDUSTRIES	818.7	24	3007.9	15	77.3	141	177.6	61	9.4	4.9	13.4	16	3.2
(B) PAPER													
GROUP COMPOSITE	**18122.7**	**17**	**66288.9**	**8**	**835.9**	**1285**	**2372.5**	**NM**	**4.6**	**0.4**	**8.4**	**23**	**1.8**
BOWATER	381.9	12	1359.0	0	21.0	329	–4.8	NM	5.5	1.4	–3.1	NM	–0.5
CHAMPION INTERNATIONAL	1465.4	13	5318.2	5	102.3	NM	63.3	NM	7.0	NM	1.2	NM	0.3
CHESAPEAKE	274.7	37	990.5	12	16.3	123	37.6	262	5.9	3.6	9.9	20	1.5
CONSOLIDATED PAPERS	288.6	33	1027.6	8	28.[illegible]	106	86.7	35	9.9	6.4	9.0	23	1.9
FORT HOWARD	343.7	18	1274.4	7	–25.2	NM	–42.1	NM	NM	NM	NM	NA	–7.

ORPORATE SCOREBOARD

OMPANY	SALES 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL.	CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
ITERNATIONAL PAPER	4127.0	21	14966.0	9	154.0	54	432.0	49	3.7	2.9	6.6	22	[illegible]
AMES RIVER CORP. OF VIRGINIA	1668.9	45	5417.3	17	–18.7	NM	–13.0	NM	NM	NM	–4.1	NM	–0.7[illegible]
IMBERLY-CLARK	1920.8	9	7364.2	6	105.6	–25	535.1	5	5.5	8.0	19.8	15	3.33
ANVILLE	709.4	22	2560.3	12	8.4	NM	65.4	8	1.2	NM	4.7	26	0.33
EAD	1175.8	20	4557.5	8	–12.6	NM	89.6	–6	NM	1.2	4.1	35	1.52
OTLATCH	387.5	13	1471.3	7	26.9	72	49.0	28	6.9	4.6	5.3	24	1.68
COTT PAPER	960.8	6	3581.1	0	130.8	NM	264.1	NM	13.6	NM	15.5	21	3.54
NION CAMP	922.2	16	3395.8	9	58.3	232	117.2	134	6.3	2.2	6.5	30	1.68
ESTVACO (2)	762.5	23	2607.5	11	51.3	NM	103.6	83	6.7	NM	5.6	25	1.55
EYERHAEUSER	2733.5	5	10398.3	9	188.9	86	588.7	12	6.9	3.9	14.1	14	2.86
0 PUBLISHING & BROADCASTING													
NDUSTRY COMPOSITE	13811.2	7	48855.7	9	1191.1	47	3667.9	36	8.6	6.3	18.2	22	2.19
A) BROADCASTING													
ROUP COMPOSITE	2829.5	1	10091.1	10	285.1	34	961.4	21	10.1	7.6	22.1	19	4.20
APITAL CITIES/ABC	1974.3	12	6379.2	12	240.6	44	679.8	45	12.2	9.5	16.8	20	4.42
BS	855.2	–18	3711.9	6	44.5	–4	281.6	–14	5.2	4.5	109.1	17	3.74
B) PUBLISHING													
ROUP COMPOSITE	10981.7	9	38764.6	9	906.1	51	2706.5	41	8.3	5.9	17.1	23	1.88
OW JONES	566.6	11	2091.0	8	58.2	24	181.2	23	10.3	9.2	12.2	19	1.83
UN & BRADSTREET	1408.4	7	4895.7	4	209.5	699	629.5	47	14.9	2.0	52.1	14	3.70
ANNETT	1048.6	7	3824.5	5	149.4	16	465.4	17	14.2	13.1	27.5	16	3.23
NIGHT-RIDDER	713.9	9	2649.0	8	53.2	4	170.9	15	7.4	7.8	14.0	16	3.15
cGRAW-HILL	697.3	2	2760.9	26	49.9	11	203.1	NM	7.2	6.6	24.7	17	4.10
EREDITH (6)	214.9	5	827.6	5	8.9	–22	31.8	25	4.2	5.6	12.1	21	2.28
EW YORK TIMES	605.4	–5	2357.6	17	40.7	NM	213.3	NM	6.7	NM	13.3	10	2.05
EADER'S DIGEST ASSOCIATION (6)	855.6	7	2933.4	4	105.1	–11	208.3	–42	12.3	14.7	25.8	26	1.84
CHOLASTIC (7)	254.1	19	682.6	17	27.3	18	33.3	2	10.8	10.8	17.0	25	2.06
CRIPPS (E. W.)	330.6	5	1220.0	2	23.7	–61	122.7	–5	7.2	19.1	11.4	18	1.61
IME WARNER†	2287.0	17	7396.0	12	12.0	71	–91.0	NM	0.5	0.4	–8.6	NM	–0.27
IMES MIRROR	957.4	7	3357.5	4	46.9	974	126.2	144	4.9	0.5	6.6	19	0.98
RIBUNE	591.1	16	2154.9	11	69.1	19	242.0	28	11.7	11.4	21.5	17	3.32
ASHINGTON POST	450.9	14	1614.0	8	52.2	23	169.7	10	11.6	10.7	15.3	17	14.65
1 SERVICE INDUSTRIES													
IDUSTRY COMPOSITE	21322.0	17	77630.8	13	805.0	46	2952.1	48	3.8	3.0	13.8	19	1.47
) CONSTRUCTION & ENGINEERING													
ROUP COMPOSITE	3763.4	12	13376.2	6	80.4	–12	194.3	–29	2.1	2.7	7.9	31	0.99
OGEE ENTERPRISES (10)	186.3	1	730.5	11	3.8	30	7.7	19	2.0	1.6	6.3	30	0.57
JTLER MFG.	210.1	34	692.2	20	5.0	–61	15.4	–15	2.4	8.2	20.7	11	3.13
I&G	340.1	0	1332.6	1	8.0	–63	–32.1	NM	2.4	6.4	–7.2	NM	–0.58
UOR (2)	2385.0	9	8485.3	8	52.4	8	192.4	15	2.2	2.2	15.8	20	2.32
COBS ENGINEERING GROUP (3)	412.4	58	1317.5	19	7.3	0	18.8	–35	1.8	2.8	9.4	27	0.75
ONE & WEBSTER	229.7**	3	818.2	–22	3.9	NM	–7.8	NM	1.7	NM	–2.0	NM	–0.52
) INDUSTRIAL DISTRIBUTION													
ROUP COMPOSITE	4757.5	21	17396.8	15	66.2	–51	415.3	–1	1.4	3.3	9.6	22	1.27
NET (6)	1040.0	22	3812.4	31	31.1	32	114.4	62	3.0	2.8	9.9	13	2.76
ARINGS (6)	249.9	10	984.8	12	3.4	45	14.3	38	1.3	1.0	9.4	16	1.89
TTY PETROLEUM (11)	195.3	7	732.5	–8	3.0	242	7.5	–19	1.5	0.5	8.1	20	0.60
AINGER (W. W.)	768.9	16	3023.1	15	1.0	–98	127.9	–14	0.1	6.2	12.3	24	2.50
JGHES SUPPLY (11)	210.6	18	766.6	22	2.8	51	9.5	81	1.3	1.0	7.6	11	1.74
MAN	214.6**	8	820.8	3	–26.9	NM	–13.2	NM	NM	2.5	–9.5	NM	–0.93
ARSHALL INDUSTRIES (7)	243.8	22	889.1	19	9.4	9	35.2	26	3.9	4.3	14.2	13	2.02
ONK-AUSTIN (6)	325.2	161	663.5	18	-4.1	NM	–18.1	NM	NM	5.0	–12.0	NM	–1.00
ONEER-STANDARD ELECTRONICS (9)	212.4	42	749.8	39	6.1	25	23.3	31	2.9	3.3	20.4	11	1.53
EMIER INDUSTRIAL (7)	201.3	10	778.2	9	27.2	13	100.7	10	13.5	13.1	23.0	20	1.18
NITED STATIONERS (4)	402.2	9	1504.6	2	6.9	17	16.8	–24	1.7	1.6	6.8	15	0.90
NIVAR (10)	468.8	9	1879.0	4	0.9	104	–16.9	NM	0.2	0.1	–9.9	NM	–0.80
YLE ELECTRONICS	224.5	NA	792.3	NA	5.4	NA	14.0	NA	2.4	NA	8.8	18	1.13
) POLLUTION CONTROL													
OUP COMPOSITE	4393.3	18	16459.3	16	303.8	25	1154.5	57	6.9	6.5	14.6	18	1.52
OWNING-FERRIS INDUSTRIES (3)	1292.8	39	4679.0	31	89.6	52	314.6	54	6.9	6.4	13.2	20	1.62
IST INTERNATIONAL	442.1	8	1682.9	10	8.5	–60	55.6	–30	1.9	5.2	5.8	23	0.67
MX TECHNOLOGIES	2658.4	11	10097.3	11	205.8	26	784.4	73	7.7	6.8	17.2	16	1.62
) PRINTING & ADVERTISING													
OUP COMPOSITE	1951.0	12	6691.9	11	110.0	14	344.0	52	5.6	5.6	14.5	18	1.74
VO (3)	263.1	7	991.8	7	10.2	41	28.1	362	3.9	2.9	26.1	16	1.20
NTA	230.3	29	811.3	17	12.4	16	47.2	15	5.4	6.0	14.7	14	2.33
NNELLEY (R. R.) & SONS	1457.6	11	4888.8	11	87.4	11	268.6	50	6.0	6.0	13.8	18	1.75

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	SALES CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	SALES CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	PROFITS CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	PROFITS CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS' EARNINGS PER SHARE
(E) OTHER SERVICES													
GROUP COMPOSITE	**6456.9**	**19**	**23706.7**	**15**	**244.6**	**NM**	**844.0**	**152**	**3.8**	**NM**	**19.4**	**16**	**1.59**
ABM INDUSTRIES (2)	233.0**	14	884.6	14	4.9	15	15.2	20	2.1	2.1	11.8	14	1.65
EMPHESYS FINANCIAL GROUP	383.1	12	1462.3	12	13.7	38	64.3	11	3.6	2.9	21.3	10	3.77
HANDLEMAN (8)	347.2	8	1109.7	1	15.5	0	31.4	–16	4.5	4.8	10.1	12	0.94
HEALTH SYSTEMS INTERNATIONAL	589.5	17	2306.2	18	23.9	NM	88.1	270	4.1	NM	39.6	16	1.77
INTERIM SERVICES (9)	184.7	30	634.4	23	4.5	38	14.2	36	2.4	2.3	8.1	21	1.24
KELLY SERVICES	631.4	25	2362.6	21	18.1	33	61.1	37	2.9	2.7	14.6	19	1.61
MANPOWER	1255.7	52	4296.4	35	26.9	534	83.9	NM	2.1	0.5	71.8	24	1.12
NORRELL (2)	186.7	16	680.8	21	4.1	NM	15.1	380	2.2	NM	28.8	15	1.39
OLSTEN	581.6**	6	2260.3	5	21.2	61	70.1	NM	3.6	2.4	19.1	21	1.67
PHH (8)	510.1	6	2081.2	0	17.6	9	67.7	9	3.5	3.0	13.0	10	3.86
SAFETY-KLEEN	249.0	3	791.3	–1	16.7	NM	50.1	NM	6.7	NM	13.0	18	0.87
SERVICE CORP. INTERNATIONAL	315.2	28	1117.2	24	34.8	17	131.0	27	11.0	12.1	13.6	19	1.51
SERVICEMASTER	739.1	6	2985.2	8	36.8	19	139.9	–4	5.0	4.5	45.5	14	1.81
VOLT INFORMATION SCIENCES (2)	250.7	55	734.5	30	5.9	NM	12.0	NM	2.4	NM	13.4	11	2.51
22 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	58983.5	8	220968.2	7	5242.7	NM	20154.9	68	8.9	NM	18.7	16	2.50
(A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	**29098.7**	**11**	**105813.3**	**10**	**1820.1**	**63**	**7333.7**	**49**	**6.3**	**4.3**	**20.1**	**18**	**2.21**
AIRTOUCH COMMUNICATIONS†	309.3	32	1136.2	15	3.1	–79	98.1	145	1.0	6.2	2.9	NM	0.20
AT&T	21110.0	11	75094.0	8	1338.0	72	4710.0	27	6.3	4.1	28.2	17	3.01
DSC COMMUNICATIONS	312.1	43	1003.1	37	53.5	86	162.6	99	17.2	13.2	19.1	26	1.39
LIN BROADCASTING†	240.2	26	876.5	27	34.5	NM	564.2	NM	14.4	NM	262.2	13	10.84
MCI COMMUNICATIONS	3400.0	9	13338.0	12	151.0	41	795.0	27	4.4	3.4	8.8	15	1.32
SCIENTIFIC-ATLANTA (6)	277.4	56	973.0	35	15.0	NM	59.6	213	5.4	NM	14.5	28	0.77
SPRINT	3244.4	9	12661.8	11	206.6	9	883.7	84	6.4	6.4	20.0	12	2.53
TELEPHONE & DATA SYSTEMS†	205.3	36	730.8	31	18.4	195	60.5	79	9.0	4.1	4.1	43	1.07
(B) TELEPHONE COMPANIES													
GROUP COMPOSITE	**29884.8**	**5**	**115154.8**	**4**	**3422.6**	**NM**	**12821.2**	**81**	**11.5**	**NM**	**18.0**	**15**	**2.71**
ALLTEL	772.4	18	2961.7	26	44.0	–36	271.8	4	5.7	10.5	16.7	20	1.43
AMERITECH	3181.2	4	12569.5	6	429.1	8	1170.4	–23	13.5	13.0	14.5	20	2.13
BELL ATLANTIC	3486.5	4	13791.4	5	314.9	–7	1401.9	–5	9.0	10.0	22.1	17	3.21
BELLSOUTH	4394.6	7	16844.5	6	558.5	NM	2159.8	109	12.7	NM	15.0	14	4.35
CINCINNATI BELL	323.4	13	1228.2	13	21.1	NM	75.6	NM	6.5	NM	14.0	18	1.15
FRONTIER	248.7	3	985.5	9	26.4	3	109.9	33	10.6	10.6	13.8	15	1.50
GTE	5248.0	4	19944.0	1	693.0	NM	2451.0	148	13.2	NM	24.2	13	2.55
NYNEX	3390.9	0	13306.6	–1	198.3	NM	792.6	NM	5.8	NM	9.3	20	1.89
PACIFIC TELESIS GROUP	2356.0	3	9235.0	0	262.0	NM	1136.0	495	11.1	NM	21.7	12	2.68
SBC COMMUNICATIONS	3207.6	11	11618.5	9	424.7	10	1648.7	15	13.2	13.3	20.5	16	2.74
SOUTHERN NEW ENGLAND TELECOMMS.	436.4**	2	1717.0	4	41.6	NM	177.6	NM	9.5	NM	19.1	12	2.77
U S WEST	2839.0	6	10953.0	6	409.0	55	1426.0	200	14.4	9.9	21.2	13	3.14
23 TRANSPORTATION													
INDUSTRY COMPOSITE	36439.6	7	141317.5	6	1061.2	76	4443.1	81	2.9	1.8	11.6	18	2.01
(A) AIRLINES													
GROUP COMPOSITE	**15170.1**	**3**	**62333.0**	**3**	**–400.9**	**NM**	**–156.3**	**NM**	**NM**	**NM**	**–13.0**	**NM**	**–1.19**
ALASKA AIR GROUP	318.0	15	1315.6	17	–5.1	NM	22.5	NM	NM	NM	11.5	9	1.68
AMR	3995.0	11	16137.0	2	–123.0	NM	228.0	NM	NM	NM	4.6	27	2.26
DELTA AIR LINES (6)	2919.0	–1	12198.3	0	–18.0	NM	–273.7	NM	NM	NM	–22.3	NM	–7.39
NORTHWEST AIRLINES	2192.0	2	9143.0	6	35.9	242	295.5	NM	1.6	0.5	NM	7	2.92
SOUTHWEST AIRLINES	626.2	3	2591.9	13	20.3	–47	179.3	16	3.2	6.3	14.8	15	1.22
UAL	3439.0	3	13950.0	5	11.0	NM	77.0	NM	0.3	NM	NM	NM	0.76
USAIR GROUP	1681.0	7	6997.2	-1	–322.0	NM	–684.9	NM	NM	NM	NM	NM	–12.73
(B) RAILROADS													
GROUP COMPOSITE	**9817.6**	**8**	**37636.7**	**7**	**1155.1**	**35**	**3579.9**	**50**	**11.8**	**9.4**	**17.1**	**12**	**3.53**
BURLINGTON NORTHERN	1344.0	8	4995.0	6	142.0	20	426.0	44	10.6	9.5	22.8	12	4.48
CONRAIL	986.0	8	3733.0	8	149.0	41	324.0	38	15.1	11.6	10.9	14	3.90
CSX	2540.0	10	9608.0	7	239.0	58	652.0	82	9.4	6.5	17.5	12	6.23
KANSAS CITY SOUTHERN INDUSTRIES	292.2**	12	1097.9	14	16.9	–44	104.9	8	5.8	11.5	16.2	16	2.32
NORFOLK SOUTHERN	1171.9**	8	4581.3	3	176.1	10	667.8	22	15.0	14.7	14.1	13	4.90
SANTA FE PACIFIC	711.0	13	2680.9	11	46.3	–13	199.4	12	6.5	8.4	16.5	19	1.05
SOUTHERN PACIFIC RAIL	780.5	5	3142.6	8	[illegible]	NM	247.8	NM	19.3	0.5	27.3	11	1.6[illegible]
UNION PACIFIC	1992.0	4	7798.0	6	235.0	0	958.0	34	11.8	12.3	19.5	11	4.60
(C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	**5552.4**	**13**	**20967.8**	**11**	**188.2**	**28**	**694.1**	**99**	**3.4**	**3.0**	**11.7**	**13**	**2.4[illegible]**
AIRBORNE FREIGHT	529.9	13	1970.8	15	10.6	–26	38.8	10	2.0	3.1	10.0	13	1.8
AMERCO (9)	295.9	11	1231.7	12	[illegible]	–49	63.1	50	0.6	1.4	8.6	15	1.3
AVIALL	237.2	6	863.3	–4	3.7	–6	9.5	NM	1.6	1.8	3.0	15	0.4[illegible]
FEDERAL EXPRESS (7)	2358.8	11	8932.1	10	86.1	44	259.1	65	3.7	2.8	12.5	14	4.5[illegible]

ORPORATE SCOREBOARD

OMPANY	SALES				PROFITS				MARGINS				
	4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	4TH QUARTER 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	4TH QUARTER 1994 %	4TH QUARTER 1993 %	RETURN COMMON EQUITY 12 MONTHS ENDING 12-31	EARN RATIO 2-10	12 MONTHS' EARNINGS
ATX	311.0**	11	1155.0	6	25.1	55	91.5	26	8.1	5.8	12.2	11	[illegible]
YDER SYSTEM	1242.8	14	4685.6	11	38.0	24	153.5	34	3.1	2.8	13.9	11	1.95
RINITY INDUSTRIES (9)	576.9	24	2129.4	24	22.7	23	78.6	16	3.9	4.0	13.0	17	1.95
) TRUCKING & SHIPPING													
ROUP COMPOSITE	**5899.5**	**11**	**20380.1**	**10**	**118.8**	**–14**	**325.3**	**–22**	**2.0**	**2.6**	**7.3**	**22**	**1.11**
LEXANDER & BALDWIN	361.5**	21	1208.2	23	23.0	–3	74.6	11	6.3	8.0	11.8	14	1.62
MERICAN PRESIDENT	764.7**	0	2793.5	7	22.5	6	74.2	–7	2.9	2.8	13.0	9	2.38
RKANSAS BEST	328.4	22	1098.4	9	7.3	30	18.7	–11	2.2	2.1	6.9	17	0.74
AROLINA FREIGHT	276.8	5	935.9	11	0.3	NM	8.0	NM	0.1	NM	6.3	9	1.21
ONSOLIDATED FREIGHTWAYS	1281.0	15	4680.5	12	19.6	16	60.3	19	1.5	1.5	8.0	19	1.11
UNT (J. B.) TRANSPORT SERVICES	331.3	28	1207.6	18	10.8	–1	40.4	6	3.3	4.2	10.9	18	1.05
ADWAY SERVICES	1526.6	11	4572.0	10	13.7	–68	19.6	–84	0.9	3.1	1.9	NM	0.50
IT FREIGHTWAYS	271.3	15	1016.5	13	10.4	48	33.4	17	3.8	3.0	16.8	18	1.51
ELLOW	757.9	0	2867.5	0	11.2	–6	–3.8	NM	1.5	1.6	–0.9	NM	–0.14
4 UTILITIES & POWER													
DUSTRY COMPOSITE	**52413.6**	**0**	**214236.0**	**2**	**3682.4**	**88**	**19604.9**	**14**	**7.0**	**3.7**	**11.1**	**13**	**1.94**
) ELECTRIC, WATER & COGENERATION													
ROUP COMPOSITE	**40814.3**	**1**	**170934.1**	**2**	**3051.3**	**138**	**17229.2**	**15**	**7.5**	**3.2**	**11.1**	**12**	**1.99**
LEGHENY POWER SYSTEM	582.8	0	2451.7	5	51.1	–5	239.8	3	8.8	9.2	10.9	13	1.86
MERICAN ELECTRIC POWER	1283.0	-4	5505.0	4	117.6	–26	554.9	34	9.2	11.9	11.8	12	2.71
MERICAN WATER WORKS	187.6	3	770.2	7	17.7	20	78.7	4	9.4	8.1	10.4	12	2.34
LANTIC ENERGY	202.4	1	913.0	5	–5.6	NM	93.3	–17	NM	8.1	8.7	13	1.41
LTIMORE GAS & ELECTRIC	610.3	–8	2783.0	2	48.1	55	323.6	4	7.9	4.7	10.4	13	1.93
STON EDISON	353.4	2	1548.6	4	11.0	11	125.0	6	3.1	2.9	11.8	10	2.41
ROLINA POWER & LIGHT	639.3	–3	2876.6	–1	45.9	–28	313.2	–10	7.2	9.7	11.7	14	2.03
NTERIOR ENERGY	570.0	–1	2421.0	–2	51.4	NM	269.8	NM	9.0	NM	11.0	7	1.38
NTRAL & SOUTH WEST	798.0	–5	3626.0	–2	68.0	NM	412.0	47	8.5	NM	12.9	12	2.08
NTRAL MAINE POWER	218.0	–6	904.9	1	–64.1	NM	–23.3	NM	NM	5.4	–6.0	NM	–1.04
NERGY	693.4	–9	2924.2	3	–6.0	NM	225.8	122	NM	NM	8.3	19	1.30
PSCO	200.2	–4	844.6	0	17.3	2	87.4	–2	8.6	8.1	12.9	12	2.46
NS ENERGY	914.0	–2	3619.0	4	38.0	27	203.0	22	4.2	3.2	16.5	12	2.09
MMONWEALTH ENERGY SYSTEM	228.7	–6	978.6	4	11.0	-21	49.0	7	4.8	5.7	13.4	9	4.59
NSOLIDATED EDISON CO. OF N. Y.	1461.2	–2	6373.1	2	117.9	1	734.3	12	8.1	7.9	13.1	9	2.98
LMARVA POWER & LIGHT	219.6	–6	991.0	2	18.5	36	108.3	–3	8.4	5.9	11.1	12	1.67
STEC ENERGY	206.4	–13	726.7	8	30.0	–15	110.5	7	14.5	15.0	15.2	6	1.84
TROIT EDISON	802.7	–8	3519.3	1	95.4	–27	419.9	–20	11.9	15.0	11.8	11	2.67
MINION RESOURCES	1004.7	–3	4491.1	1	50.0	–51	520.0	–7	5.0	9.8	10.3	14	2.81
L	299.6	–3	1204.6	3	28.0	20	159.6	8	9.3	7.6	14.0	14	1.54
E	290.8	–3	1235.6	3	39.3	29	162.7	8	13.5	10.2	12.5	11	2.98
KE POWER	976.4	-2	4279.3	0	93.5	–23	638.9	2	9.6	12.1	12.9	14	2.88
ORIDA PROGRESS	682.9	8	2738.7	12	50.8	26	222.2	6	7.4	6.4	10.7	14	2.28
L GROUP	1289.7	5	5424.6	2	86.1	–10	558.3	18	6.7	7.8	12.3	13	2.91
NERAL PUBLIC UTILITIES	844.1	–2	3649.5	1	63.3	72	191.7	–41	7.5	4.3	6.2	21	1.42
WAIIAN ELECTRIC INDUSTRIES	319.8	14	1188.5	4	22.7	20	80.2	18	7.1	6.7	10.9	13	2.60
INDUSTRIES	195.8	–5	785.9	2	13.0	–10	67.7	–2	6.7	7.1	11.3	11	2.34
INOVA	368.1	–4	1589.5	1	35.5	229	181.9	NM	9.6	2.8	11.0	11	2.09
NSAS CITY POWER & LIGHT	192.1	–4	868.3	1	20.0	4	104.8	–1	10.4	9.6	11.5	15	1.64
&E ENERGY	190.3	21	829.7	–8	19.2	28	62.7	–28	10.1	6.2	7.4	23	1.72
NG ISLAND LIGHTING	655.4	–2	3067.3	6	38.6	41	301.9	2	5.9	4.1	10.3	7	2.15
DWEST RESOURCES	264.8	-15	1068.5	–3	14.8	7	77.2	–13	5.6	4.5	10.3	11	1.30
INTANA POWER	289.4**	2	1006.9	–2	45.4	–9	113.6	6	15.7	17.7	11.4	12	2.00
W ENGLAND ELECTRIC SYSTEM	557.4	0	2243.0	0	39.9	-38	208.1	4	7.2	11.5	12.6	11	3.07
W YORK STATE ELECTRIC & GAS	512.6	4	1898.9	5	59.6	57	187.6	13	11.6	7.7	10.3	9	2.37
AGARA MOHAWK POWER	1018.1	3	4152.2	6	–77.4	NM	177.0	–35	NM	3.1	5.6	14	1.00
PSCO INDUSTRIES	428.2	–8	1676.4	0	51.2	0	173.9	4	12.0	11.0	14.5	13	2.48
RTHEAST UTILITIES	898.2	0	3642.7	0	75.5	–14	329.9	34	8.4	9.8	12.4	10	2.30
RTHERN STATES POWER	608.8	–1	2486.6	3	48.8	–9	243.5	15	8.0	8.7	12.2	13	3.46
IO EDISON	567.1	–4	2368.2	0	74.5	NM	308.9	917	13.1	NM	12.2	11	1.97
LAHOMA GAS & ELECTRIC	281.4	–7	1355.2	–6	5.0	NM	123.8	8	1.8	NM	13.2	12	3.01
ANGE & ROCKLAND UTILITIES	258.7	2	1016.9	5	3.4	–42	37.2	–17	1.3	2.3	8.8	13	2.50
CIFIC GAS & ELECTRIC	2638.2	–3	10447.3	–1	103.5	–50	1007.5	–5	3.9	7.7	10.9	11	2.21
CIFICORP	890.1	1	3506.5	3	126.4	12	468.0	11	14.2	12.9	12.6	12	1.51
CO ENERGY	919.5	–2	4040.6	1	132.7	–4	433.9	–27	14.4	14.8	9.0	15	1.76
NNSYLVANIA POWER & LIGHT	654.3	–6	2725.1	0	–0.3	NM	244.3	–30	NM	11.6	8.6	14	1.41
INACLE WEST CAPITAL	363.0	–3	1685.4	3	42.2	70	226.9	13	11.6	6.6	11.4	9	2.30
RTLAND GENERAL	265.1	–1	959.4	1	27.1	–24	103.9	3	10.2	13.4	11.0	11	1.87
TOMAC ELECTRIC POWER	355.1	1	1823.1	6	13.8	101	227.2	–6	3.9	1.9	10.8	11	1.79
BLIC SERVICE CO. OF COLORADO	535.4	3	2057.4	3	50.8	–4	170.3	8	9.5	10.1	12.7	12	2.57
BLIC SERVICE CO. OF NEW MEXICO	220.9	–4	904.7	4	15.2	NM	80.3	NM	6.9	NM	12.0	7	1.77
BLIC SERVICE ENTERPRISE GROUP	1468.1	0	5915.8	4	143.4	72	721.2	14	9.8	5.7	12.8	10	2.78
GET SOUND POWER & LIGHT	336.9	5	1194.1	7	40.8	4	120.1	–13	12.1	12.3	9.0	13	1.64

CORPORATE SCOREBOARD

COMPANY	SALES 4TH QUARTER 1994 $ MIL	SALES CHANGE FROM 1993 %	SALES 12 MONTHS 1994 $ MIL	SALES CHANGE FROM 1993 %	PROFITS 4TH QUARTER 1994 $ MIL	PROFITS CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $ MIL	PROFITS CHANGE FROM 1993 %	MARGINS 4TH QUARTER 1994 %	MARGINS 4TH QUARTER 1993 %	RETURN ON COMMON EQUITY 12 MONTHS ENDING 12-31	PRICE-EARNINGS RATIO 2-10	12 MONTHS EARNING PER SHARE
ROCHESTER GAS & ELECTRIC	243.7	–5	1000.8	5	25.6	15	74.4	–5	10.5	8.7	9.0	12	1.79
SAN DIEGO GAS & ELECTRIC	523.2	0	1982.0	0	57.1	1	143.5	–34	10.9	10.8	9.3	18	1.17
SCANA	317.4	5	1322.1	5	23.7	–28	157.2	–10	7.5	10.9	10.7	14	3.19
SCECORP	2041.7	10	8344.6	6	144.4	–2	721.5	6	7.1	7.9	11.3	11	1.52
SOUTHERN	1915.0	–2	8297.2	–2	197.0	26	1075.9	–2	10.3	8.0	12.2	14	1.52
SOUTHWESTERN PUBLIC SERVICE (4)	187.2	–8	827.6	1	21.2	–19	97.3	–9	11.3	12.8	13.3	13	2.26
TECO ENERGY	324.3	1	1350.8	5	24.0	–34	156.7	2	7.4	11.3	14.1	16	1.32
UNICOM	1465.3	209	6277.5	19	95.6	NM	419.9	309	6.5	NM	6.5	15	1.66
UNION ELECTRIC	407.0	–1	2056.1	0	18.7	287	320.8	8	4.6	1.2	13.3	12	3.01
WASHINGTON WATER POWER	190.4	7	670.8	5	26.7	13	77.2	-7	14.0	13.3	10.6	12	1.28
WESTERN RESOURCES	359.2	–30	1617.9	–15	33.4	–5	187.4	6	9.3	6.9	11.8	11	2.82
WHEELABRATOR TECHNOLOGIES	386.9	16	1324.6	16	46.8	6	184.9	13	12.1	13.3	12.9	14	0.97
WISCONSIN ENERGY	431.7	–4	1742.2	3	63.4	14	182.2	–6	14.7	12.4	10.6	16	1.67
WPL HOLDINGS	209.4	–3	816.2	6	14.1	–40	68.6	3	6.7	10.8	10.9	14	2.13
(B) GAS, OIL & TRANSMISSION GROUP COMPOSITE	**11599.3**	**–5**	**43301.9**	**1**	**631.0**	**–7**	**2375.7**	**7**	**5.4**	**5.5**	**10.9**	**15**	**1.65**
ATLANTA GAS LIGHT (3)	328.8	–9	1166.8	1	1.8	–93	38.7	–37	0.5	7.3	6.6	25	1.35
BROOKLYN UNION GAS (3)	358.3	–4	1331.4	8	42.8	2	88.1	13	12.0	11.4	10.9	13	1.85
COLUMBIA GAS SYSTEM	769.0	–24	2833.4	–16	73.2	5	246.2	62	9.5	6.9	17.7	5	4.87
EASTERN ENTERPRISES	221.4	–2	924.9	6	10.6	42	38.9	50	4.8	3.3	10.5	14	1.87
EL PASO NATURAL GAS	227.7	–2	869.9	-4	23.4	7	89.6	–2	10.3	9.4	12.6	13	2.45
ENRON	2559.6	13	8904.5	12	114.2	7	472.7	41	4.5	4.7	16.3	18	1.80
MCN	412.1	–8	1545.8	4	20.9	–26	78.5	7	5.1	6.3	15.5	14	1.31
NATIONAL FUEL GAS (3)	271.5	–12	1102.7	6	25.9	–7	80.5	4	9.5	9.0	10.3	12	2.16
NICOR	395.6	–26	1609.4	4	34.8	–6	109.5	0	8.8	6.9	16.0	12	2.07
NORAM ENERGY	713.1	–18	2801.4	-5	23.8	NM	51.3	28	3.3	NM	7.6	17	0.36
PACIFIC ENTERPRISES	717.0	–13	2664.0	–8	53.0	6	183.0	–4	7.4	6.1	13.5	12	1.99
PANHANDLE EASTERN	1168.4	10	4585.1	7	53.2	127	225.2	31	4.6	2.2	3.0	15	1.51
PEOPLES ENERGY (3)	307.1	–19	1207.3	–4	25.1	–36	60.5	–26	8.2	10.3	9.4	15	1.74
QUESTAR	201.2	10	670.3	2	–4.6	NM	49.4	-42	NM	13.9	7.5	23	1.21
SONAT	467.6	–17	1773.9	2	22.0	–56	141.4	–47	4.7	8.9	10.0	17	1.62
SOUTHWEST GAS	224.5	10	728.2	6	24.5	31	26.3	113	10.9	9.1	8.0	12	1.22
TRANSCO ENERGY	681.5	–13	2816.2	–4	–31.4	NM	12.2	NM	NM	NM	–2.4	NM	–0.42
UGI (3)	194.9	–7	746.6	4	10.3	–36	33.3	8	5.3	7.6	7.5	22	0.99
UTILICORP UNITED	449.7	4	1514.6	–4	33.6	1	94.4	9	7.5	7.7	10.1	14	2.08
WASHINGTON GAS LIGHT (3)	242.9	–10	886.6	–1	27.7	–8	57.9	1	11.4	11.2	11.2	14	2.69
WICOR	210.0	–10	867.7	2	12.0	–10	33.2	13	5.7	5.7	11.7	14	1.99
WILLIAMS	477.3	14	1751.1	–2	34.2	–3	164.9	–11	7.2	8.4	9.5	19	1.52

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A

A&P 10c
Abbott Laboratories 12d
ABM Industries 21e
Advanced Micro 9d
ADVO 21d
Aetna Life & Casualty 17b
AFLAC 17b
AGCO 15c
Ahmanson (H F) 17c
Air Products & Chemicals 4
Airborne Freight 23c
AirTouch Communications 22a
AK Steel Holding 16b
Alaska Air Group 23a
Albemarle 4
Alberto-Culver 6d
Albertson's 10c
Alco Standard 5
Alcoa 16a
Alexander & Baldwin 23d
Allegheny Ludlum 16b
Allegheny Power 24a
Allergan 12b
AlliedSignal 5
Allstate 17b
Alltel 22b
Alumax 16a
Amdahl 18b
Amerada Hess 11a
Amerco 23c
American Bankers Insurance 17b
American Brands 6e
American Electric 24a
American Express 17a
American Greetings 14c
American Home 12b
American Medical 12c
American President 23d
American Re 17b
American Stores 10c
American Water Works 24a
Ameritech 22b
Ames Dept. Stores 8
Ametek 9a
Amgen 12b
Amoco 11a
AMP 9d
Amphenol 9d
AMR 23a
AmSouth Bancorporation 3c
Analog Devices 9d
Anheuser-Busch 6c
Aon 17b
Apogee Enterprises 21a
Apple Computer 18b
Applied Materials 15c
Arcadian Partners 4
Arco Chemical 4
Arkansas Best 23d
Armco 16b
Armstrong World 6b
Arvin Industries 2b
Asarco 16c
Ashland 11a
AST Research 18b
AT&T 22a
AT&T Capital 17a
Atlanta Gas Light 24b
Atlantic Energy 24a
Atlantic Richfield 11a
Automatic Data 18c
AutoZone 8
Avery Dennison 15a
Aviall 23c
Avnet 21b
Avon Products 6d

B

Baker (J) 8
Baker Hughes 11b
Ball 7a
Baltimore G&E 24a
Banc One 3b
Bancorp Hawaii 3d
Bandag 2c
Bank of Boston 3a
Bank of New York 3a
BankAmerica 3d
Bankers Trust 3a
BanPonce 3c
Banta 21d
Bard (C.R.) 12d
Barnes & Noble 8
Barnett Banks 3c
Bausch & Lomb 12d
Baxter International 12d
Bay Networks 18c
BayBanks 3a
Bear Stearns 17a
Bearings 21b
Beckman Instruments 9c
Becton, Dickinson 12d
Bell Atlantic 22b
BellSouth 22b
Bemis 7b
Beneficial 17a
Bergen Brunswig 12a
Best Buy 6b
Bethlehem Steel 16b
Beverly Enterprises 12c
Birmingham Steel 16b
Black & Decker 15b
Boatmen's Bancshares 3b
Bob Evans Farms 14a
Boeing 1
Boise Cascade 19a
Borden 10b
Boston Edison 24a
Bowater 19b
Bradlees 8
Briggs & Stratton 15c
Brinker International 14a
Bristol-Myers Squibb 12b
Broadway Stores 8
Brooklyn Union Gas 24b
Brown Group 6a
Brown-Forman 6c
Browning-Ferris 21c
Bruno's 10c
Brunswick 14c
Burlington Coat Factory 8
Burlington Industries 15d
Burlington Northern 23b
Burlington Resources 11a
Butler Mfg 21a

C

Cabletron Systems 18c
Cabot 4
Caesars World 14b
Caldor 8
California Federal Bank 17c
Campbell Soup 10b
Canandaigua Wine 6c
Capital Cities/ABC 20a
Cardinal Health 12a
Caremark Intl 12c
Carnival 14c
Carolina Freight 23d
Carolina Power 24a
Carson Pirie Scott 8
Casey's General Stores 10c
Caterpillar 15c
CBI Industries 4
CBS 20a
Centerior Energy 24a
Centex 13b
Central & South West 24a
Central Maine Power 24a
Cerridian 18c
Champion Intl. 19b
Charming Shoppes 8
Charter Medical 12c
Chase Manhattan 3a
Chemical Banking 3a
Chesapeake 19b
Chevron 11a
Chrysler 2a
Chubb 17b
Cigna 17b
Cincinnati Bell 22b
CINergy 24a
Cipsco 24a
Circuit City Stores 6b
Circus Circus 14b
Cirrus Logic 9d
Cisco Systems 18c
Citicorp 3a
Clark Equipment 15c
Clorox 6d
CMS Energy 24a
Coastal 11a
Coca-Cola 6c
Coca-Cola Enterprises 6c
Colgate-Palmolive 6d
Collins & Aikman 15d
Coltec Industries 5
Columbia Gas 24b
Comdisco 18c
Comerica 3b
Commercial Metals 16b
Commonwealth Energy System 24a
Compaq Computer 18b
CompuCom Systems 18a
CompUSA 18c
Computer Associates 18c
Computer Sciences 18c
ConAgra 10b
Cone Mills 15d
Conner Peripherals 18b
Conrail 23b
Conseco 17b
Consolidated Edison 24a
Cons. Freightways 23d
Consolidated Papers 19b
Consolidated Stores 8
Continental Medical 12c
Cooper Industries 9a
Cooper Tire & Rubber 2c
CoreStates Financial 3a
Corning 15a
Countrywide Credit 17a
CPC International 10b
Cracker Barrel 14a
Crane 15a
Cray Research 18b
Crestar Financial 3c
Crown Cork & Seal 7a
CSX 23b
CUC International 18a
Cummins Engine 2b
Cyprus Amax Minerals 16c

D

Dana 2b
Danaher 15b
Data General 18b
Dayton Hudson 8
Dean Foods 10b
Dean Witter, Discover 17a
Deere 15c
Delchamps 10c
Dell Computer 18b
Delmarva Power & Light 24a
Delta Air Lines 23a
Deluxe 18a
Destec Energy 24a
Detroit Diesel 2b
Detroit Edison 24a
Dexter 4
Dial 5
Diamond Shamrock 11a
Dibrell Brothers 6e
Diebold 18a
Digital Equipment 18b
Dillard 8
Disney (Walt) 14c
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Dollar General 8
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Eastman Chemical 4
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EG&G 21a

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The number following each company name identifies the Scoreboard category under which it is listed

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tronic Arts 18c
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nily Dollar Stores 8
nie Mae 17a
's 12a
eral Express 23c
eral Home Loan 17a
eral Paper Board 7b
eral Signal 15a
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' International 12c
dcrest Cannon 15d
h Third Bancorp 3b
a 11a
gerhut 8
t Bank System 3b
t Brands 15a
t Chicago 3b
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t Fidelity 3a
t Financial Mgmt. 17a
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t of America Bank 3b
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t Union 3c
tar 3b
gstar 14a
t Financial Group 3a
twood Ents. 14c
ida Progress 24a
vers Industries 10b
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; 15c
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ter 6b
rtier 22b
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nett 20b
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eway 2000 18b
X 23c
ord Container 7b
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entech 12b
eral Dynamics 1
eral Electric 5
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eral Motors 2a
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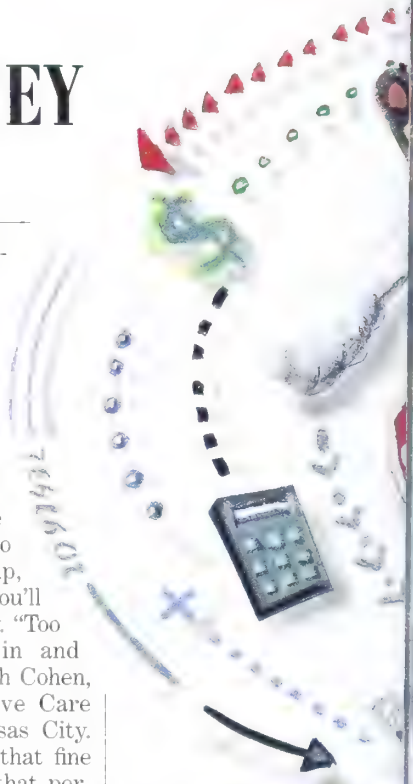
EDITED BY AMY DUNKIN

WHEN YOUR PARENTS' MONEY BECOMES YOUR WORRY



Looking back, it was the small financial mishaps that provided the first hints of his mother's eventual decline, says Douglas Drake, an art dealer in New York City. Years before she suffered her first stroke and her arthritis became debilitating, Drake's mother began giving huge tips to drivers who took her on errands and was persuaded to loan money to a handyman who never repaid her. But Drake didn't try to stop her erratic financial behavior. At that point, more than a decade ago, she still seemed as independent and vital as ever. "I felt she knew what she was doing," he says.

But by the time her health deteriorated and Drake had to take over his mother's finances, much of the damage had been done. Now 87 years old, "completely confused," and living in a nursing home, she is fast burning through all her assets. "If I had managed better, she wouldn't be feeling that pressure," Drake says. "I don't feel entirely free of guilt." Plus, at 51, he doesn't have a large nest egg himself and can't look forward to much of an inheritance.

While tales abound of greedy offspring exploiting aging parents for money, a bigger problem may be that adult children often don't get involved enough in their parents' finances, says Kate Wilber, an assistant professor at the University of Southern California's Andrus Gerontology Center. Money is never an easy topic for families to tangle with. And given the obvious conflict of interest adult children may feel when inquiring about their parents' assets, it's tempting to put off such conversations until a problem arises. Tempting, but unwise.

"FINE LINE." Small slipups—lost utility bills, unpaid insurance premiums, uncashed dividend checks—can have major consequences for the elderly. Even worse, your parents could be victimized by con artists who prey on the aged.

Luckily, there are lots of ways to help your parents stay out of financial trouble before it occurs in the first place. You'll have to start making major financial decisions together, monitor your parents' day-to-day finances for signs of confusion, and get to know their most trusted advisers. It also means making money and estate planning a familiar topic long before it seems necessary. "To the extent that plans can be made early, it really saves a lot of money and anguish," says Allen Jones, Merrill Lynch's director of individual financial services.

Some people become increasingly unwilling to share financial information as they age. And if your parents slip up financially, they may be too embarrassed to turn to you for help, or they may fear you'll take over completely. "Too often families go in and overreact," says Ruth Cohen, president of Creative Care Consultants in Kansas City. "You want to walk that fine line of not eroding that person's independence but not leaving them vulnerable and exposed," says Wilber.

FINANCES Besides day-to-day budgeting, you may want to review your parents' investments and financial agreements

Don't be afraid to ask your parents if they need help with their daily finances. Even if they turn you down, "it doesn't hurt to probe or investigate," says Wilber. When you visit, check for piles of unopened mail, notices from creditors, or a disorderly checkbook. Do they have failing eyesight or arthritis that would make it difficult to write out checks? When you mention Apr. 15, do they seem aware taxes are coming due? If they are unwilling to spend cash, make sure they are filling prescriptions and buying enough groceries, Cohen advises. If they are spending too much, make sure they aren't paying medical bills insurance could cover or giving excessive gifts.

To family members, any one of these problems can seem major, but most of them are easily solved. What you can't do yourself, you can h someone else to take ov And you may be able bring things back under c trol just by arranging for d idends, Social Security, a pension checks to be direc deposited into the bank. B that are the same e month can often be p through automatic withdra als. A central assets accou which combines checking a savings, a brokerage accou and a debit card that has statement can be a great v to simplify things, says Jo Many of these all-in-one counts also come with au matic bill-paying servic That way, you can pay bills for your parents us a Touch-Tone phone or w your personal compu Many banks will provide with copies of parents' sta ments, and utility or ins ance companies may be w ing to inform you if a goes unpaid.

ll this must be done at · parent's request, how- . "Their right of confiden- :y is first and foremost," Stephen Heine, a senior -president at KeyCorp. rmally, bank officers and ance agents may be will- ing to work with children of elderly clients if they recognize you have your parents' best interests in mind.

If your parents need help but you don't live in the area or they would rather get it from a third party, there are any number of places to turn (table, page 120). Financial planners, accountants, and bank officers may be willing to provide a variety of money-management services. Local social-service agencies and the American Association of Retired Persons provide free financial help, commonly called "daily money management," to low-income seniors.

There are several new fields developing to meet the needs of seniors able to pay for services. These businesses can be an enormous source of relief for people who do not live near their parents. But there is also potential for fraud. You'll need to do some checking to make sure you're dealing with a legitimate enterprise. Review qualifications, ask for references, and check for complaints at your local Better Business Bureau or Chamber of Commerce. Particularly when hiring someone to help with finances, "we suggest a written understanding of what they will do and what they will charge for it," says Cohen. "Temptations are too great."

MANAGEMENT TEAM. If your parents have an assortment of needs, such as help with cleaning or cooking along with daily money management, a geriatric-care manager can help. These private advisers, usually nurses or social workers, will develop a long-term care plan for your parent, which may include finding them housekeepers, bill-payers, or drivers. Care managers charge from $60 to $150 an hour and usually take five to eight hours to do an initial

Helping Your Parents Stay Out of Financial Trouble

MPLIFY EVERYDAY MONEY MANAGEMENT This uld be as basic as making sure parents have direct posit for dividends and Social Security checks or ping them keep track of financial papers and writing ecks. Services are available to handle health insurce claim forms and bill-paying.

T LEGAL DOCUMENTS IN ORDER A durable power attorney will allow you to make all financial decisions hout having to go to court and establish guardianp. A health-care proxy will allow you to make medical cisions. A living will specifies what heroic measures, ny, should be taken to keep your parents alive if they in a coma.

REVIEW FINANCIAL AND ESTATE PLANNING Make sure your parents don't have unnecessary insurance policies and consider adding long-term care or "Medigap" coverage. Find out about any hidden bank or brokerage accounts. Meet with an estate planner to discuss strategies for saving on estate taxes.

ESTABLISH A RELATIONSHIP WITH ADVISERS AND CARE PROVIDERS Make sure you trust the people your parents trust—especially anyone new. Meet face-to-face with their lawyer, accountant, or financial planner, as well as anyone providing nursing or home care. This may discourage anyone from trying to exploit them and encourage anyone reputable to call you if a problem arises.

DATA BUSINESS WEEK

assessment, gather information from other sources, and put together a plan, says Cohen, who is president of the National Association of Geriatric Care Managers. Once the plan is in place, they will monitor your parents' well-being and be on hand in the event of an emergency.

Businesses are also cropping up to handle the mind-boggling process of filing health-insurance claims. "A lot of elderly people get very intimidated and start paying bills they shouldn't," says Harvey Matoren, president of Claims Security of America, based in Jacksonville, Fla. The company provides service nationwide, charging $195 a year plus a $35 setup fee to handle all claims.

Even if your parents don't need help with paperwork and bills, you should sit down and review all their investments and financial agreements. Check to see that they haven't bought any unnecessary insurance policies and discuss getting long-term care coverage or a Medicare supplement, or "Medigap," policy. Find out about any hidden bank or brokerage accounts and safe-deposit boxes and ask your parents to add your name to accounts so you'll have access in case of emergency.

BE SUSPICIOUS. Establish a relationship with all your parents' advisers and care providers. This includes personal visits with the parents' lawyer, accountant, or financial planner as well as their nurse, housekeeper, or cook. "Face to face, you can control the relationship a lot better," says Jones. Partly this is to make sure you can trust the people your parents trust. But assuming they are reputable, you also want them to know you so they will call if they have any concerns.

Be suspicious of anyone new in your parents' lives. Check out the qualifications of new financial advisers and see if they represent a major firm. Elderly people are often vulnerable to aggressive sales tactics. But if unscrupulous advisers know you are closely involved with your parents, even if you live far away, they may look for an easier target.

There are an assortment of legal documents your parents should have in place long before they actually need them. These documents will make it much easier for you to manage things if a parent becomes incapacitated. A durable power of attorney permits you to make all financial decisions, including managing their banking, real estate, and investments. This doesn't limit parents' ability to make transactions and they can revoke it at any time, so it doesn't give you control over their spending. But if they are suddenly unable to manage their affairs, you'll be able to free up cash and write checks, even if your name isn't on all the accounts. And as long as they remain healthy, if they travel, you'll be able to oversee their finances while they are away.

Powers of attorney have gotten more flexible in recent years, says Howard Gladston, head of trusts and estates for the New York law firm Ballon Stoll Bader & Nadler. Your parents can choose to grant you the power only for specific accounts or transactions. They could also create a "springing" power of attorney that goes into effect on a certain date or following a specific event. Knowing this may make them more willing to have the document drawn up.

A health-care proxy, also known as a health-care power of attorney, allows you to make medical decisions for your parents and ensures that you know their wish for treatment if they a sick or in an accident. living will specifies wh kind of heroic measur should be taken to ke your parents alive if th slip into a coma and o lines burial plans. Atto neys will often put t gether a package of the documents (durable po er of attorney, health-ca proxy, and living will) a fee of $100 to $300, pending on the lawy and the part of the co try. Without these re tively simple arrang ments, you might have go through a costly a upsetting court proc to be named guardi if your parents beca incompetent.

LIVING TRUSTS. Trusts can a useful tool in many sit tions but are considera more complex and can be pensive to draft. If your p ents haven't done so, y should all meet together w an estate planner who explain various options. L insurance trusts can prov you with cash to cover tate taxes. Or if avoid probate is the goal, "liv trusts" may be useful. common trust specifies t the parents receive inco while the principal goes heirs. Some trusts allow to be removed only at discretion of the trust which is one way you co limit the amount your p ents spend. Essentially trust can be written to complish almost any g But since it is your pare money, they dictate terms. You can only m suggestions.

More than any trust rangement or legal docum the best way to keep y parents out of financial tro is to have an open and ho relationship. That may m having uncomfortable dis sions about money ear than seems necessary. B you wait too long, you lose the chance to help t help themselves. *Amey S*

Care for the Elderly: Resources

ELDERCARE LOCATOR (800 677-1116)	Sponsored by the National Association of Area Agencies on Aging, this information line will direct you to services in your parents' area.
NATIONAL ASSOCIATION OF PROFESSIONAL GERIATRIC CARE MANAGERS (602 881-8008)	These private-care managers may perform a range of services for the elderly, from arranging placement in a nursing home to helping balance a checkbook. Their national trade group will provide you with names.
NATIONAL ACADEMY OF ELDER LAW ATTORNEYS (602 881-4005)	This lawyer's association offers free materials on how to choose an estate planner or elder law attorney.
NATIONAL ORGANIZATION OF CLAIMS ASSISTANCE PROFESSIONALS (708 963-3500)	Finds professionals to take over the burden of health-insurance paperwork. One firm, Claims Security of America (800 400-4066), offers free brochures on the service.

"A lot of elderly get intimidated and start paying bills they shouldn't"

IEXICAN STOCKS OR STEEL STOMACHS

exico's stock mar-
t, once the darling
Wall Street, is not a
etty sight. Buffeted
devaluation and now by
ending recession, the mar-
is down almost 26% in pe-
and 31% in dollars this
r. Stocks are trading at
els not seen since Sep-
ıber, 1993, before the
th American Free Trade
eement was passed. But
estors willing to gamble on
xico's long-term growth
ential may find a few bar-
ıs in the wreckage—pro-
ed they have a strong
nach for risk and the pa-
ce to wait out the worst.

DAMENTALS. One strategy
o stick with blue chips,
ing for companies with
ng management and limit-
oreign-currency debt expo-
. At the top of most lists
eléfonos de México, the
hone monopoly known as
nex, which was falling
1 before the devaluation
ears it would lose market
e once long-distance com-
tion opens up next year.

But in a country with fewer than nine lines per 100 people, there's still strong growth potential. "People will recognize those fundamentals over the long term," says C. Thomas Tull, CEO of Gulfstream Global Investors in Dallas.

Another blue chip that many analysts like is retailer Cifra, Mexico's largest. With no debt, a joint venture with Wal-Mart Stores, and strong management, Cifra is poised to weather an expected sharp drop in consumer demand and should pick up market share from competitors who can't match its efficiency. Analysts are also eyeing Cementos Mexicanos, known as Cemex, whose 43.5% drop in the value of its global depository receipts this year is thought sufficient to compensate for the risk of more than $3 billion in foreign debt. Indeed, some analysts argue blue chips are bottoming out. "If you look at Telmex and Cemex—are they going to go down any more?" asks Geoffrey E. J. Dennis, managing director at Bear Stearns & Co. in New York.

One stock many pros consider particularly enticing is Fomento Económico Mexicano, widely known as Femsa, a brewer and soft-drink bottler that is trading at 70% of its book value in dollars. Mexico is the world's No. 2 soft-drink market, and hard economic times won't squash the local habit of guzzling Coke at lunch. Femsa also controls about half of Mexico's beer market and boasts growing exports of brands such as Dos Equis and Tecate to the U. S.

SMART MONEY

Another popular strategy is to buy the pricey shares of exporters, expected to surge thanks to the weaker peso. Exporters "may not necessarily have fallen in price, but good stuff is still good stuff," says Alexander Anderson, research director at Abaco Casa de Bolsa in Mexico City. He favors steelmaker Grupo Alfa and cement companies that sell abroad, including Cemex and Cementos de Chihuahua.

But even these *bolsa* bargains aren't enough to persuade some analysts, as interest rates climb and further darken earnings prospects. "We think in the short term that the money market is more attractive," says Luis de Urquijo, director of research at Vector Casa de Bolsa in Mexico City. For non-Mexicans, he recommends buying short-term pe[illegible]nominated treasury certi[illegible] called Cetes that yield a[illegible]h as 50%, along with a he[illegible] instrument to compensa[illegible] currency risks. Tesobonos, d[illegible]lar-indexed instruments now yielding about 17%, have their advocates, too. "Tesobono rates are so generous they compensate for the ample risks that exist," says Lawrence Krohn, senior economist for Latin America at Union Bank of Switzerland in New York.

Still, most brokerage houses won't buy Mexican government bonds for retail customers in small quantities. At Vectormex, Vector's New York subsidiary, the minimum purchase for bonds is $100,000. So the easiest way for average investors to tap those rates is still through an emerging-markets fund.

Whether investors pick fixed income or equity buys, analysts warn that Mexican financial markets could be tumultuous until the peso stabilizes and the economy shows signs of recovery. That could take most of this year—at the least. "So much depends on psychology," says UBS' Krohn. These days, Mexico is only for investors who can look past the anxiety of the moment—and very, very far into the future. *Elisabeth Malkin*

TELMEX COULD BE A STRONG CONNECTION

Tiptoeing Into Mexico

SECURITY	INVESTMENT OUTLOOK	RECENT PRICE*
CIFRA	Big Mexican retailer has no debt and good management. Expansion may compensate for falling demand.	$1.07
FEMSA	This producer of soft drinks and beers considered underpriced. Also has export growth potential.	$1.84**
GRUMA	This producer of tortilla flour and tortilla snacks should benefit from increasing consumption of its staples.	$13.50
GRUPO CARSO	This highly diversified conglomerate is controlled by billionaire Carlos Slim, a master at survival in tough times.	$4.90
KIMBERLY-CLARK DE MEXICO	This paper-products market leader boasts strong management and consistent earnings.	$9.05
TELEFONOS DE MEXICO	Many believe the market has exaggerated the risks of coming competition for this telecommunications giant. Lots of long-term growth potential in phone-starved Mexico.	$30.63**

*Per share in dollars, translated from pesos as of 2/21/95 **Per U.S.-traded ADR, priced in dollars DATA: BUSINESS WEEK, BLOOMBERG BUSINESS NEWS

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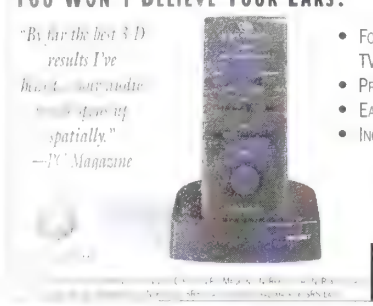

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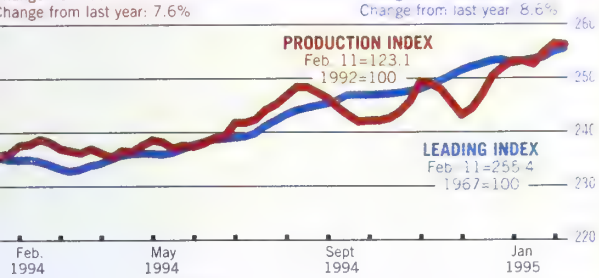
Business Week Index

RODUCTION AND LEADING INDEXES



ndexes are 4-week moving averages

production index was nearly unchanged during the week ended Feb. 11. before calculation of the four-week moving average, the index fell to .9, from 124.3. Declines in most of the seasonally adjusted output num- s offset a jump in the production of electric power.

leading index rose in the latest week, but the unaveraged index was little nged at 255.5, from 255.8. Slower growth in materials prices offset posi- signs elsewhere.

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PRODUCTION INDICATORS

	LATEST WEEK	[illegible]	YEARLY [illegible]
STEEL (2/18) thous. of net tons	2,030	1,956#	
AUTOS (2/18) units	148,864	145,044r#	3.4
TRUCKS (2/18) units	116,868	118,333r#	–3.1
ELECTRIC POWER (2/18) millions of kilowatt-hrs.	NA	65,339#	NA
CRUDE-OIL REFINING (2/18) thous. of bbl./day	NA	13,413#	NA
COAL (2/11) thous. of net tons	20,401#	22,049	1.6
PAPERBOARD (2/11) thous. of tons	915.0#	927.8r	5.4
PAPER (2/11) thous. of tons	840.0#	835.0r	0.8
LUMBER (2/11) millions of ft.	457.7#	452.0	–2.2
RAIL FREIGHT (2/11) billions of ton-miles	23.3#	24.4	8.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

EADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
OCK PRICES (2/17) S&P 500	483.19	480.96	2.7
RPORATE BOND YIELD, Aaa (2/17)	8.26%	8.28%	17.0
DUSTRIAL MATERIALS PRICES (2/17)	112.2	112.4r	14.0
SINESS FAILURES (2/10)	NA	276	NA
AL ESTATE LOANS (2/8) billions	$466.1	$466.0r	9.7
NEY SUPPLY, M2 (2/6) billions	$3,595.2	$3,589.5r	1.9
TIAL CLAIMS, UNEMPLOYMENT (2/4) thous.	318	326	–13.1

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures erge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (2/22) $/troy oz.	379.200	376.600	–0.2
STEEL SCRAP (2/21) #1 heavy, $/ton	142.50	144.00	2.2
COPPER (2/18) ¢/lb.	139.4	136.7	54.4
ALUMINUM (2/18) ¢/lb	91.5	95.5	51.2
COTTON (2/18) strict low middling 1-1/16 in., ¢/lb.	91.36	87.86	26.4
OIL (2/21) $/bbl.	18.86	18.42	32.4

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (2/21)	5.99%	5.82%	3.25%
MMERCIAL PAPER (2/21) 3-month	6.14	6.19	3.63
ITIFICATES OF DEPOSIT (2/22) 3-month	6.13	6.14	3.57
ED MORTGAGE (2/17) 30-year	9.04	9.04	7.25
JUSTABLE MORTGAGE (2/17) one-year	6.80	6.73	4.32
ME (2/22)	9.00	9.00	6.00

rces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (2/22)	97.00	98.43	104.95
GERMAN MARK (2/22)	1.47	1.51	1.72
BRITISH POUND (2/22)	1.59	1.56	1.48
FRENCH FRANC (2/22)	5.14	5.24	5.84
ITALIAN LIRA (2/22)	1622.5	1606.6	1685.0
CANADIAN DOLLAR (2/22)	1.40	1.40	1.35
MEXICAN PESO (2/22)[3]	5.775	5.945	3.230

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

w data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense pment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SUMER CONFIDENCE

day, Feb. 28, 10 a.m. ▶ The Confer- Board's index of consumer confidence ably fell to 101 in February from 1 in January. That's the median fore- of economists surveyed by MMS Inter- nal, a division of McGraw-Hill Inc.

SS DOMESTIC PRODUCT

nesday, Mar. 1, 8:30 a.m. ▶ The MMS y projects that the Commerce Dept.'s revisions to the fourth-quarter economy show no change in the annual rate of th for real GDP, already reported as 5. However, the mix will change: A ler trade gap likely offset slower inven- accumulation at yearend.

CONSTRUCTION SPENDING

Wednesday, Mar. 1, 10 a.m. ▶ Outlays for building projects likely fell 0.2% in January, after a steep 1.1% jump in December.

NAPM SURVEY

Wednesday, Mar. 1, 10 a.m. ▶ The National Association of Purchasing Management's index probably slipped slightly in February to 57% from 57.9% in January.

PERSONAL INCOME

Thursday, Mar. 2, 8:30 a.m. ▶ Personal income probably increased 0.8% in January, the same solid advance posted in December. Consumer spending likely rose 0.3%, also the same gain as in December. That means the softer pace for buying evident at yearend carried into 1995.

NEW HOME SALES

Thursday, Mar. 2, 10 a.m. ▶ Homes probably sold at an annual rate of 624,000 in January, down from 637,000 in December.

LEADING INDICATORS

Friday, Mar. 3, 8:30 a.m. ▶ The government's composite index of leading indicators likely fell 0.1% in January.

FACTORY INVENTORIES

Friday, Mar. 3, 10 a.m. ▶ Factory inventories likely rose by 0.3% in January, the same increase as in December.

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

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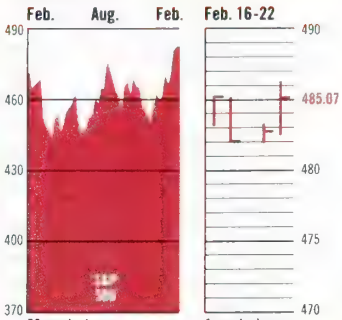
nvestment Figures of the Week

MENTARY

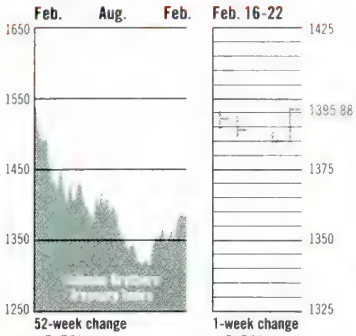
ddling week in the financial ets, which were dominated by cline of the dollar against ma- rrencies. The greenback's ness was abetted by trader ment that the Federal Reserve intervene in support of the ncy. Bonds also slid steadily. lue chip stocks performed with the Dow Jones industrial ge climbing to all-time highs o consecutive days. The Dow d at a record 3988 on Feb. 16. rable earnings news buoyed s.

STOCKS



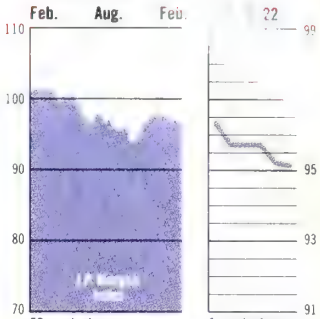
52-week change +3.1%
1-week change +0.1%

BONDS



52-week change −8.8%
1-week change +0.2%

THE DOLLAR



52-week change −6.0%
1-week change −1.2%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	3973.1	−0.3	2.1
IZE COMPANIES (S&P MidCap Index)	177.7	−0.7	−1.6
L COMPANIES (Russell 2000)	253.9	−1.4	−4.1
OMPANIES (Russell 3000)	277.1	−0.2	1.8

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3019.5	−1.8	−9.6
O (NIKKEI INDEX)	18,106.7	0.6	−6.4
NTO (TSE COMPOSITE)	4121.1	−0.1	−5.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.83%	5.88%	3.46%
30-YEAR TREASURY BOND YIELD	7.54%	7.56%	6.65%
S&P 500 DIVIDEND YIELD	2.68%	2.68%	2.47%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.2	21.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	461.2	460.5	Positive
Stocks above 200-day moving average	53.0%	53.0%r	Neutral
Speculative sentiment: Put/call ratio	0.65	0.61 r	Neutral
Insider sentiment: Vickers sell/buy ratio	0.75	0.76	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
PER CONTAINERS	13.4	16.1	STONE CONTAINER	32.0	44.8	24 1/4
STAURANTS	12.0	5.5	McDONALD'S	13.3	9.1	33
MEBUILDING	11.0	−34.8	CENTEX	12.6	−35.1	25 5/8
ECIALTY PRINTING	10.1	−1.0	JOHN H. HARLAND	13.6	−5.4	22
NANCIAL SERVICES	9.9	3.8	MBNA	14.4	25.0	26 7/8

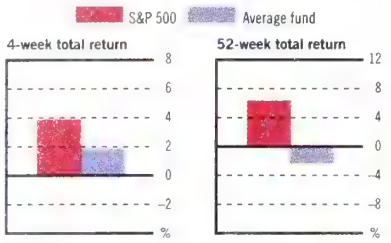
R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
CHINE TOOLS	−5.6	−22.1	CINCINNATI MILACRON	−13.7	−8.4	20 1/2
EEL	−5.4	−11.8	INLAND STEEL INDUSTRIES	−8.4	−13.9	28 3/4
TALS	−5.0	2.7	INCO	−8.8	7.4	27 3/8
LD MINING	−3.8	−18.0	SANTA FE PACIFIC GOLD	−10.4	NA	10 3/4
UMINUM	−3.6	6.7	ALCOA	−4.1	5.9	82 5/8

TUAL FUNDS

MORNINGSTAR INC

ERS week total return	%
RKINS OPPORTUNITY	10.3
INVESTMENT PACIFIC BASIN EQUITY	9.4
RGAN STANLEY INSTL. ASIAN EQUITY	9.1
eek total return	**%**
ELITY SELECT HEALTH CARE	28.5
LIGMAN COMMUNICATIONS & INFORM. A	28.4
RKINS OPPORTUNITY	27.6

LAGGARDS Four-week total return	%
MORGAN STANLEY LATIN AMERICAN A	−16.2
BT INVESTMENT LATIN AMERICAN EQUITY	−15.9
HERCULES LATIN AMERICAN VALUE	−14.7
52-week total return	**%**
MONITREND GOLD	−52.8
HERCULES LATIN AMERICAN VALUE	−48.6
TCW/DW LATIN AMERICAN GROWTH	−47.3



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

r amounts represent the nt value of $10,000 ted one year ago ch portfolio

entages indicate day total returns

Foreign stocks	U.S. stocks	Money market fund	Gold	Treasury bonds
$10,538	$10,537	$10,498	$9,992	$9,460
+0.45%	+0.23%	+0.25%	+0.70%	0.00%

a on this page are as of market close Wednesday, Feb. 22, 1995, unless otherwise indicat- lustry groups include S&P 500 companies only; performance and share prices are as of market close Feb. 21. Mutual fund returns are as of Feb. 17. Relative portfolios are valued as of Feb. 21. A more detailed explanation of this page is available on request. r=revised NA=Not available

PROTECTIONISM WON'T PROTECT US

Just a few months ago, Mexico was being held up as a paragon of emerging market virtue. It had done everything right—privatizing state-owned companies, opening its capital markets to foreign investors, running a tight fiscal budget, and pegging the peso to the dollar. Democratic and Republican leaders in Washington, big business, and free-trade advocates exerted enormous political muscle in Congress to pass the North American Free Trade Agreement, the crowning glory of Mexico's liberalization.

Today, Mexico is in economic meltdown, plunging toward recession after a calamitous peso devaluation. In Washington, isolationists and globalists are battling over the merits of free trade and why American taxpayers should provide $20 billion to bail out Mexico when government programs are being cut back home. What went wrong?

Truth is, there is nothing fundamentally wrong with Mexico's real economy or with the principles of free trade. The peso crisis is a political crisis caused not by NAFTA but by an Institutional Revolutionary Party secretly printing money to win an election that would continue its one-party dominance of Mexico. Despite the existence of what was supposed to be an independent central bank, statistics on the money supply and hard-currency reserves were treated as state secrets. Markets and both domestic and foreign investors were kept in the dark as the reserves backing an overvalued peso shriveled.

If there was a failure to anticipate, it was born of political naiveté. Just about everybody, from multinationals to mutual-fund managers, misread Mexico because they ignored the politics of emerging-market countries. America's obsessive belief in the very real benefits of economic liberalization led to a blindness toward political problems. We cheered while Mexico and other developing nations such as China moved qui ly toward First World open economies. We chose to ign the backwardness of their corrupt Third World polit systems.

U. S. globalists are now paying the price for naively exp ing too much too fast. It took centuries for Europe to m the transition from feudalism to democratic capitalism. Te nology will undoubtedly speed up the time frame in tod emerging economies. But setbacks are inevitable as the en globe, for the first time in history, shifts to open markets. itics will prove as crucial a component as the markets th selves, and the two may not progress at the same p That is the real lesson of Mexico.

For the U. S., a retreat to protectionism would be a di ter. The U. S. economy is linked to the engine of gl growth. But America—and America's taxpayers—cannot expected to finance the expansion of capitalism around world without sharing in its benefits. The U. S. cannot be pected to export jobs and income forever. It cannot be pected to keep its hugely rich domestic market wide o while China, Japan, Korea, and other countries keep th relatively closed.

At the beginning of the cold war, America financed Marshall Plan that kept Europe free and capitalist becaus was in America's self-interest. In the post-cold-war era, have the same self-interest in promoting free trade and markets. Given the failure of government, Wall Street, m nationals, and the media to anticipate the debacle in Me an isolationist backlash against Clinton's rescue packag understandable. Nevertheless, the nativist tide that is ri in Washington runs the risk of pushing the economic c back to the 1930s. And we know what happened then.

IT'S TIME FOR FAMILY INCOME TO GROW

Psst. Want the secret of business success? It's easy: high productivity and low inflation. That's the overwhelming message emanating from the fourth-quarter earnings reports of 900 companies on BUSINESS WEEK's Corporate Scoreboard. Just when Wall Street feared that the economic party was over because of Federal Reserve monetary tightening in 1994, profits leaped 71% in the fourth quarter. For the entire year, profits were up 41%—the biggest increase since BUSINESS WEEK began compiling data in 1973 (page 98).

True, some companies made money the old-fashioned way: They raised prices. Detroit, in particular, took advantage of the sharp hike in the yen and the rising cost of Japanese cars in the U. S. to post big price hikes on their autos. But the vast majority of companies couldn't pass on to consumers their higher costs for raw materials or financing. Even the few industries with pricing power didn't neglect productivity. They joined the corporate chorus singing the praises of ital investment and spent accordingly. Capital spending been on a double-digit track for two years, and right hind it have come higher productivity and profits. Profit gins for the BUSINESS WEEK 900 widened sharply to last year from 4.3% in 1993.

There is one more turn to take in this virtuous cycle, that is for real wages to rise. Historically, higher wages invariably followed higher productivity. For more tha years, productivity growth had been tepid at best, kee family income stagnant. The new surge in productivity sh usher in higher middle-class income. The middle class shouldered much of the pain of downsizing and restruct that has made Corporate America so productive and co itive in global markets. Now is the time for the middle to share in the fruits of higher productivity.

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Baltic Communications Ltd - Russia

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IESS WEEK
March 13

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BusinessWeek

CH 13, 1995 | A McGRAW-HILL PUBLICATION | $2.95

AMERICA'S NEW POPULISM

Angry citizens are rebelling against big government, stagnant incomes, moral decay, and the global economy. Will the movement reshape America?

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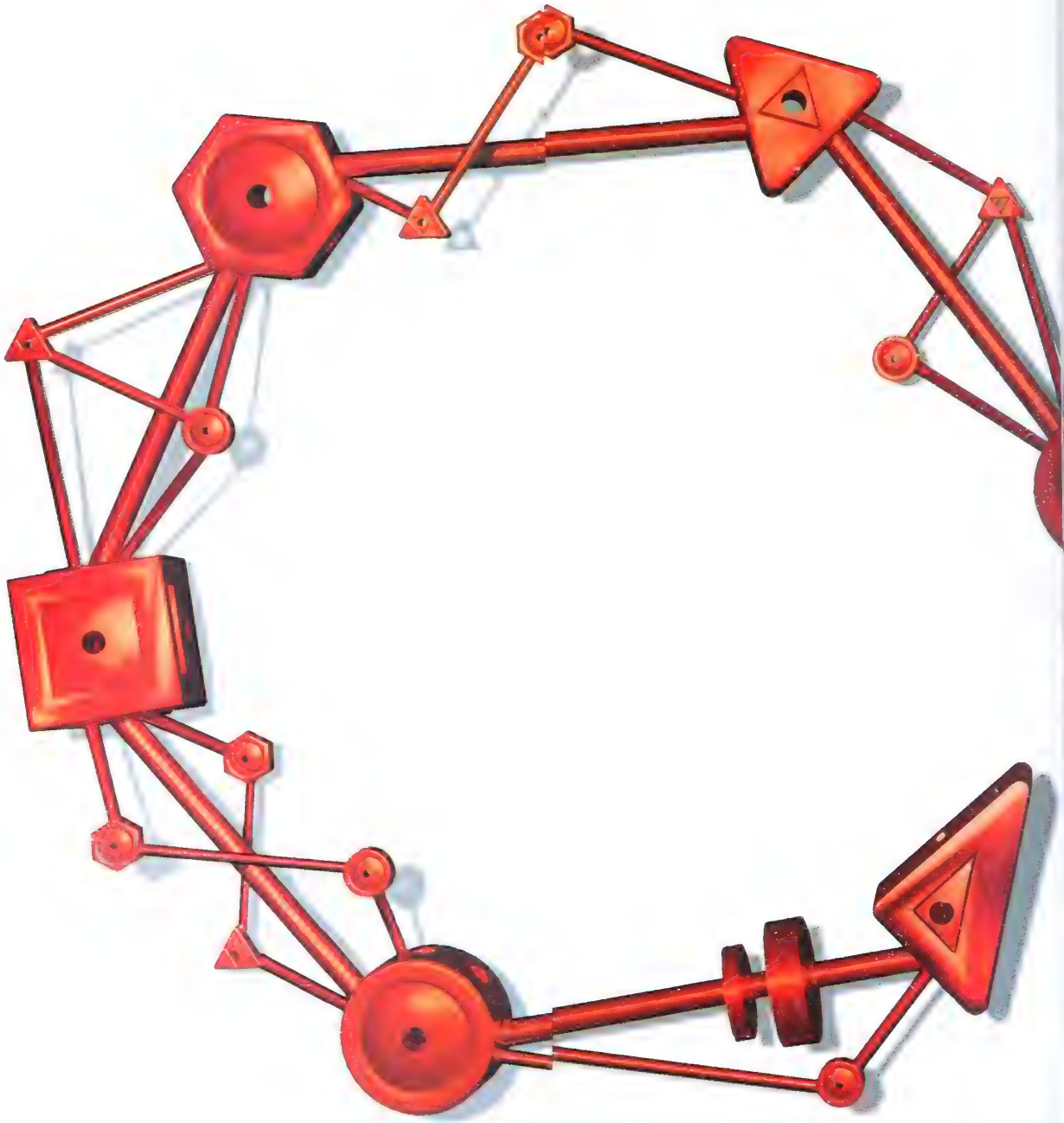
CHILD'S PLAY.



If you're confused about which way to turn on the information superhighway, maybe we can help. Multimedia is the sum of many parts, and we've had a part in most of them. Our data storage and imaging systems take on graphics-intense applications from home computers to Hollywood special effects. We're bringing multimedia to networking applications with our new family of ATM chips. Services like video-on-demand and long-distance learning are brought to you through our ATM switching systems. Our scalable parallel supercomputers help visualize processes too complex for eyes to see. So if you're looking for direction on the information highway, look for us. You'll find us at every turn. We're a $30 billion company with a worldwide multimedia investment. We can help you make getting up to speed, child's play.

FUJITSU

COMPUTERS, COMMUNICATIONS, MICROELECTRONICS

Tamika Elmore, 8, and Courtney Cagle, 8.
Their parents are employees of
International Paper's Container Division.

IAT ARE THE ISSUES?

ust as our bodies need nour-
ent to make it from childhood
ugh youth to adulthood, our
l needs packaging to make it
the farm through the grocery
to our dining tables.

Vithout the right packaging,
l would be wasted. Indeed,
arts of the world lacking
isticated packaging technol-
more than 50% of the food is
every year. It either rots or is
aged during shipping.

ortunately, we have the tech-
gy to avoid these problems. For
nce, a paper package isn't just
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knesses with graphics thrown
t. Almost every package is a
able technological feat, each a
fic solution to a special problem.
ome packages endure fluctua-
in temperature and humidity.
hold ice while allowing the
r to drain, some withstand
craping stacking without being
hed. You get the idea. Without
different types of packaging.
wouldn't have access to as
fresh food. You also wouldn't
as much variety. Some foods
ld become too expensive for
y people to afford.

he abundance of packaging
raise the question: would we
etter off without it? The
er: not really. The practical
ion is a packaging material
not only fulfills all the
irements of getting food to us
also is ecologically conscious.
is, renewable and recyclable.

t International Paper, we
rstand the need to find a
ce between preserving milk for
row's breakfast and preserving
orests for future generations.

ood?

WHAT WE ARE DOING.

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BusinessWeek
MARCH 13, 1995

COVER STORY

THE NEW AMERICAN POPULISM

A diverse protest movement is taking on big government–and it's mad as hell about stagnant incomes and global economic change

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Cover Story

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Up Front

EDITED BY LARRY LIGHT

TALK SHOW "A sleazy, tawdry effort to win a victory at the cost of amending the Constitution of the United States."

—Senator Robert Byrd (D-W.Va.), after Republicans delayed the vote on the Balanced Budget Amendment

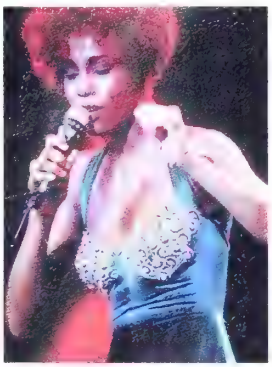
NEW WORLD ORDER

FREE RIDE IN CHINA FOR AMERICA'S PALS

THE DIRTY LITTLE SECRET OF the China trade accord is that Europe and Japan quietly rooted for the Americans to take a hard line—but publicly feigned neutrality, leaving only U.S. business at risk if a trade war erupted. After Beijing agreed on Feb. 26 to curb Chinese piracy of intellectual property, U.S. officials are privately miffed that America's major trading partners get a free ride.

Just like the U.S., Europe and Japan now have greater trademark protection in China. Plus, their U.S. subsidiaries benefit from the ending of quotas and restrictions on U.S.-made films, recordings, and software. Example: Germany's Bertelsmann, owner of America's Arista Records, which makes Whitney Houston CDs.

Meanwhile, government officials and CEOs from Japan, Germany, and Britain can visit China pretending they are reasonable where Uncle Sam isn't. None admits this out loud. A German Economics Ministry official says his country sympathizes with the U.S. yet wants to avoid conflicts. Ford Motor executives are furious about a purported behind-the-scenes effort by Toyota Motor to undermine Ford's joint ventures with China. Toyota "asked the Chinese to reconsider in light of the [Americans'] obstreperous behavior," says Greg Mastel of Washington's Economic Strategy Institute. Ford and Toyota won't comment. *Douglas Harbrecht*



HOUSTON: *Curb lifted*

FALLING AXES

PLANT CLOSING ON WALL STREET?

INVESTMENT BANKERS WHO make $700,000 a year surely aren't the crew that Congress had in mind when it passed a 1988 plant-closing bill. The act requires companies to give employees 60 days notice before they are fired when a factory is closed. Now, two former CS First Boston bankers are using the blue-collar-oriented law in a suit against the firm, which fired them on Feb. 13.

The class action, filed by New York attorney Jeffrey Liddle in Manhattan's U.S. District Court, argues that shutting down the municipal-bond department and firing 135 employees constitutes a plant closing. Further, since CSFB gave no written notice to government officials, the former employees contend, they should get 60 days pay plus $500 a day until the suit is settled. "The suit is a very valid one," says Andrew O'Connell, one of the litigants.

The law was designed partly to give workers some time to find new work. Luckily, not all of these Wall Streeters are waiting in an unemployment line. O'Connell, for instance, is now at a newly formed firm, Cambridge Capital Partners. CS First Boston says it has "meritorious defenses to the action." *Leah Nathans Spiro*

PROXY WARS

AND DON'T YOU DARE SAY 'HOLY SMOKES'

A HOLY WAR ON TOBACCO? THE latest in antismoking activism is coming from religious denominations via the proxy ballot. The Interfaith Center on Corporate Responsibility—an alliance of 275 Roman Catholic, Protestant, and Jewish institutional investors—has opened a front against consumer-goods giant Kimberly-Clark, the maker of Huggies, Kotex, and Kleenex.

Trouble is, Kimberly also owns a French outfit, LTR Industries, that supplies cigarette makers with reconstituted tobacco, paper, and other ciggie supplies (BW—Dec. 19, 1994). The religious group, which controls about 1 million Kimberly shares, is pushing for a shareholder ballot resolution to shed the tobacco unit.

In recent years, the group has launched proxy fights against major tobacco companies—all for naught. It tried to get RJR Nabisco Holdings, for example, to stop using Joe Camel in ads, out of concern that the cartoon dromedary lures children to the weed.

With Kimberly, the group figured it had extra leverage. Many of the members run hospitals that buy lots of Kimberly products. The religious investors held closed-door meetings with Kimberly managers in December. Result: Kimberly wouldn't budge. The group also is launching a letter writing campaign against the Kleenex king, under the banner "Kleen Out Tobacco From Kimberly-Clark." Kimberly says losing LTR would hurt return to shareholders. *Maria Mallon*

THE LIST BUDGET PAIN

How tough will it be to balance the budget? It depends on which programs are axe-exempt. As the table below shows, an across-the-board cut in the $2.2 trillion in spending projected for 2002 would be 10%, according to GOP estimates. So you don't want to touch the $481 billion in Social Security spending? O.K. Cut everything else by 13%. Exempt Social Security and defense, and everything else has to be cut 16%. Work your way down the list, throwing in the tax cut promised in the Contract With America, and you are talking spending cuts of up to 38% in the programs that are not spared.

HOW MUCH TO CUT FOR A BALANCED BUDGET

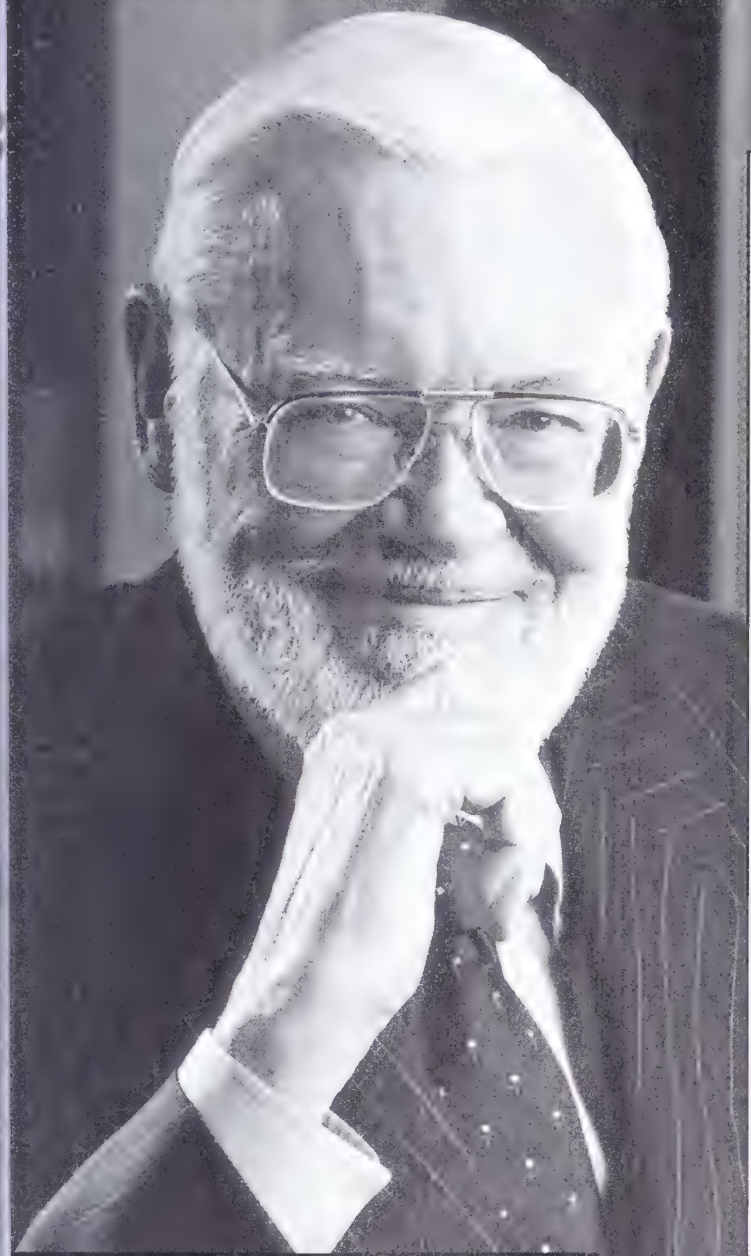
	Percentage cuts in remaining programs as exceptions accumulate
All programs cut	10%
Social Security spared	13
Defense spared	16
Contract tax cuts granted	24
Veterans spared	25
Military retirement spared	26
Civilian retirement spared	27
Medicare spared	38

DATA: SENATE BUDGET COMMITTEE

SUNNY DAYS *Social Security is safe*

"Thinking about your retirement? Then think about how fast time flies."

Bill Berger
Shareholder & Director



COMPOUND ANNUAL RETURN (12/31/64-12/31/94)† FROM THESE INVESTMENT VEHICLES

U.S. Treasury Bills	6.89%
S & P Long-term Government Bonds	7.28%
Standard & Poor's 500	9.82%

nlike common stocks, U.S. Treasury bills, bonds, and CDs offer a fixed rate and uarantee payment of principal (if held to maturity). The S&P 500 is an unmanaged ock index. This example is for illustrative purposes only and is not meant to present the performance of any of the Berger Funds. Returns from the Berger nds are not fixed and the value per share varies with market conditions. ta courtesy of Ned Davis Research, Inc. Used with permission. All rights reserved.

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Up Front

THE DEAL MILL

WORLD'S WACKIEST DEAL

THE BIG GET BIGGER, THE weird get weirder. Ripley's Entertainment, which operates 29 Ripley's Believe It or Not museums worldwide, is taking over the Guinness World of Records museums.

GAWKERS: *Next act, a merger*

Guinness, the British beer and spirits outfit, will keep its *Guinness Book of World Records*. Ripley's, a unit of Vancouver (B.C.)-based Jim Pattison Group, is best known for its own oddball publishing venture, the Sunday comic *Ripley's Believe It or Not*.

What is Ripley's getting for its money? Well, there's the tape recording of the world's loudest snorer. And a photograph of a man who ate 10 bicycles, a supermarket shopping cart, seven TV sets, and a Cessna light aircraft. Piece by piece, of course. Ripley's already boasts a portrait of the Queen of Denmark made from clothes-dryer lint. And the company just paid $7,000 for 10 dead houseflies with portraits painted on their wings and backs.

Guinness says it is getting out of museums because it wants to focus more on beverages. Under the deal, whose financial terms were undisclosed, Ripley's is buying two Guinness museums and administering seven others. Plus, it can sell future museum franchises. *Peter Valdes-Dapena*

SPORTS BIZ

TOSSING DOWN THE GAUNTLET—TO THE NBA

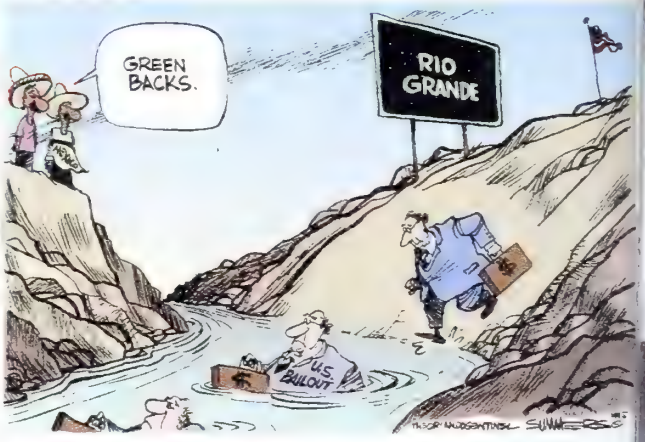
TRADEMARK MEANS PROFITS, right? Maybe not, if the pros don't wear the stuff at games. There's the rub for Hot Wear, the New York maker of the

HOT HAND: *Not for pros*

Hot Hand, a basketball glove that supposedly helps ball handling. The nubby-palmed lycra mitts come in team colors and logos, under National Basketball Assn. license. One problem: NBA rules forbid players to wear gloves. College cagers can't wear 'em, either. And it can't help sales when kiddies don't see Sir Charles or the Shaq sporting the gloves on the hardwood.

So Hot Wear President Mark Mirken is trying to force the NBA's hand, as it were. He has signed a deal with Puerto Rican basketball's governing body, and he's working on the Pan-American Basketball Confederation. After teams sport the Hot Hand at the 1996 Olympic Games, Mirken hopes, the NBA will cave in. The NBA says that will never happen. Worse, Hot Wear could lose its license if sales don't bring the NBA enough royalties. *Carl Desens*

DRAWN & QUARTERED



N.Y. BLUES

THE CASE FOR A BUSINESS COURT

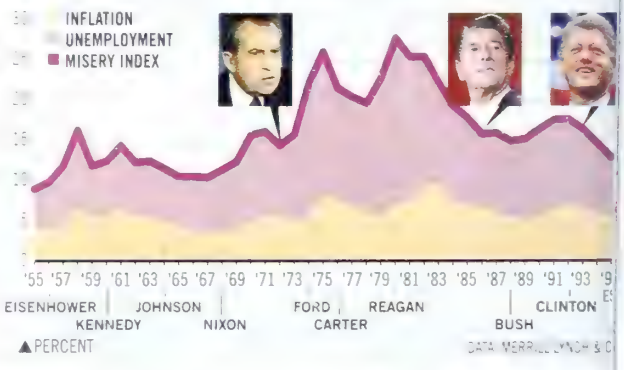
THE LAST THING THAT THIS country needs is another place for lawyers to file lawsuits. But a New York State Bar Assn. panel wants the world's financial capital to set up a business-only court, loosely modeled after Delaware's Chancery Court. The reason: in part, because lawyers at 41 large corporations said in a survey that they try to avoid New York courts if possible—even when their disputes involve New York transactions. Empire State courts, among the nation's busiest, make companies suffer big delays and high costs, the bar panel says. "There is no question that the business community is increasingly bypassing the New York state court system," says Mark Alcott, head of the panel.

Funded by user fees, the proposed court would preside over any business feud in excess of $25,000, including shareholder class actions and contract brawls. There's no indication yet how state officials view the idea. But the lawyers contend that New York needs the new court to keep competitive with other large states considering commercial courts of their own, such as California and Pennsylvania. *Linda Himelstein*

THE BIG PICTURE

THE MISERY INDEX

The Misery Index—inflation plus joblessness—is a good political predictor. If it rises in the Presidential voting year, the incumbent party usually loses; if it falls, the party probably wins. Examples: re-election victors Richard Nixon (1972) and Ronald Reagan (1984). Two exceptions: winner Dwight Eisenhower (1956) and loser George Bush (1992). Bill Clinton should hope the index keeps dropping.



FOOTNOTES Those who say exercise and diet won't change cancer risk: 35%. Those who disagree: 61%

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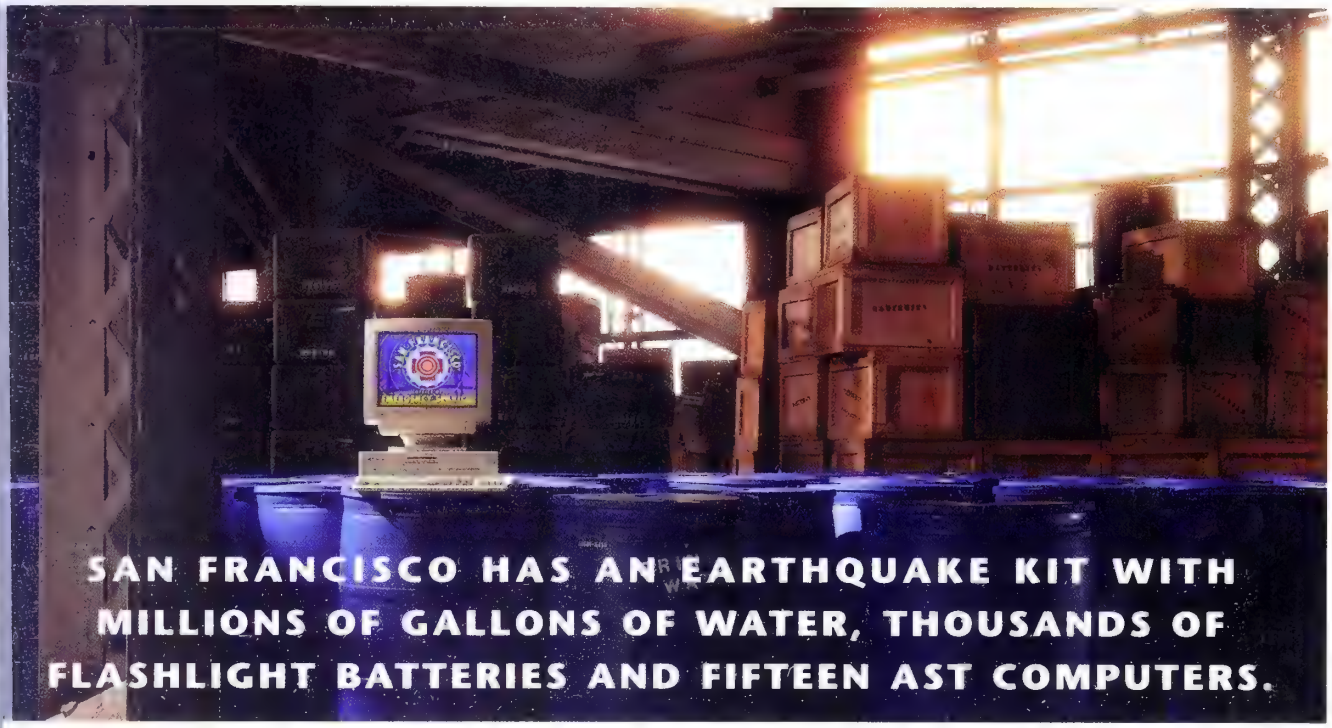

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Readers Report

IN BROKERS WE DO/DON'T TRUST

You hit the nail on the head and have exposed a serious issue with "Can you trust your broker?" (Cover Story, Feb. 20). Although I never begrudged the status and quick financial rewards I experienced as a young broker, I hated to lose money for a client. It always bothered me when older, veteran brokers got pats on the back from upper management—while it was evident many of them churned and burned their clients in order to qualify for free trips and prizes. It would not at all be unusual to find unethical brokers holding the titles of managing director, partner, first vice-president, or chairman at investment firms all over the country. Hopefully, one day regulators, firms, and clients will hold brokers accountable for client performance instead of allowing commissions to be the only benchmark of success.

Doug Davis
Executive Sales Trainer
Davis & Davis
Beaverton, Ore.

As president of an 80-year-old local brokerage, I commend your writers for a factual and thought-provoking article. Regardless of size, all brokers' sales practices, ethics, and customer-service commitments start at the top and work down through the hierarchy. Therefore, it is not that today's commission structure is inherently bad. It is rather that brokerage managers have failed to instill proper values in the sales force.

At smaller firms such as mine, we prosper by taking care of our customers. It is the best way to survive in a world of aggressive competition. My experience tells me that other small firms, like ours, prosper only when clients prosper. In such firms, the answer is: "Yes, you can trust your broker."

Wayne F. Holly
President
Sage, Rutty & Co.
Rochester, N. Y.

Your article was on target. Wha was missing was more information o viable alternatives for investors. Fee only financial planners should hav been in the spotlight. We provide ob jective financial advice, and our money management decisions are based solel on the client's needs and financial goal

Holly D. Nicholso
Financial Planning Services In
Raleigh, N. C

The public should be thankful t publications like yours for exposing th unscrupulous brokers in our industr but that is the last decade's story. In vestors are far more savvy and bette informed in today's market. They aren easily swayed by a fast-talking, slic stockbroker. And if you don't believe i

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"Investors are far more savvy and better informed in today's market. . . . And if you don't believe it, try making some of those 'cold calls' yourself."

try making some of those "cold calls yourself.

Regarding better pay for more bus ness: Isn't that what capitalism is about? If I were a client, I would rat er do business with a successful, pro perous, well-compensated broker than struggling, desperate one who is tryin to make his next mortgage payment.

Gary Meye
Senior Portfolio Manag
Robinson-Humphrey/Smith Barne
Atlan
Rhum12@aol.co

The answer to the question posed b your story is a definite yes—contrary the tone of the article. Successful i vestment professionals know that c reers are based on relationships, whi are built on investment return, quali of service, and attention to the clien

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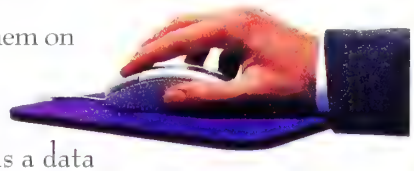

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needs. Of course, there are brokers who abuse their position of trust. But I assure you that the reality of the industry bears little resemblance to your article. I see far more brokers who are "shooting straight" than the selected negative examples that you chose to focus upon.

Dale T. Miller
Bellevue, Wash.

The answer is a resounding no. At E. F. Hutton, I witnessed first-hand all the practices noted in the article. Also, I saw how brokers acted: Greedy. Self-centered. Sleazy. I am glad I am out of that business. Every day when I went home, I felt I had to scrape off the slime and scum.

Brian Napoli
Medina, N. Y.

You present a useful and balanced description of an industry held captive by transaction-based compensation. However, as a former stockbroker and participant in customer-broker arbitration disputes, I am convinced that restoration of public trust requires more than the moderation of commission incentives. Reform of the conflict-resolution process is necessary as well.

For investors, arbitration is expensive, time-consuming, and very risky. A single defeat can be devastating when it is the only chance you get. But for the industry, arbitration is just part of damage control, and it usually works to the industry's favor. If it's the investor's word against the broker's, the broker usually wins. Rich investors don't fare well because arbitrators typically equate wealth with sophistication.

A good investor award might pay for out-of-pocket losses but not include lawyers' fees or other costs. A bad award could not only "zero" the claimant but also require payment of costs. The likelihood of punitive damages approaches zero. The industry has little incentive to settle, and risk-averse customers usually settle for much less than their economic losses.

The panels should involve random selection of members and the elimination of "professional" arbitrators, who tend to be compromisers. Decisions should be published and should include factual findings and opinions and conclusions. Decisions should be reviewed by an independent (non-industry) panel. Punitive damages should be permitted, and awards should include full restitution, including costs and legal fees. "Industry" panel members should be appointed by state securities regulators with the right to determine qualifications. The possibility of providing representation for investors with limited resources should be considered.

William F. Jordan
Professor of Accounting
Florida State University
Tallahassee

Congratulations on the excellent article. Now, how about a piece on "Can you trust your lawyer?" I have been deceived and cheated by many lawyers, but never by my stockbroker. The statement that "too many brokers are working in their own interests, not yours" could easily be applied to all lawyers.

Stockbrokers are closely watched by the SEC and state authorities, in addition to their own people. But there are close to 1 million lawyers not watched by anyone—except themselves, through bar associations.

Keith Wentz
Wentz Management Co.
San Francisco

I was stunned to read that Merrill Lynch claims that it does not have sales contests.

As a matter of fact, for several years Merrill Lynch has had what is known as the Master's Contest in which points are awarded for selling a Financial Foundation, a $175 (soon to be $250) boilerplate financial plan, 50 to 60 pages hardbound, that is the centerpiece of Merrill's new thrust to become a planning-based firm. Financial consultants who obtain enough points win trips to exotic locations. The 1995 Master's Contest is going on right now.

Richard S. Haas
Sarasota, Fla.
InfHwyHobo@aol.com

Editor's note: Merrill Lynch says it does not have contests for specific products, such as a stock or a mutual fund. It says it awards trips for financial consultants who meet various criteria, which include providing a number of financial plans for customers under the Master's Program. It denies that the approach constitutes a contest and says the plans are not transaction-oriented.

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FULL CONFIDENCE IN HONEYWELL'S MANAGERS

In my interview with your reporte for your recent story "Not so swee times at Honeywell" (The Corporation Feb. 20), I stated the board's consensu view that Honeywell Inc. managemen has performed well in a very tough en vironment. I confirmed our confidenc in their leadership and their ability t expand the company, improve margins and increase shareholder value.

I would have thought an on-the-recor statement from the director who over sees the board's evaluation of top mar agement would discredit a comment fro an unnamed source saying that direc tors have put senior management "o notice." Since you chose to use it anywa let me say again that it simply isn't tru

James J. Howard II
Chairman and CE
Northern States Power C
Minneapol

THE SAFEST BET ON SOCIAL SECURITY

Robert Kuttner suggests Social S curity trustees should assume wag growth of 1.7% and break out the chan pagne ("Social Security: If it ain't brok don't tinker," Economic Viewpoint, Fe 20). The prudent course would be to lo at history and make the modificatio based on recent trends. If this we done, and if wage growth did indeed to 1.7%, the worst thing we could say "Sorry, we have this huge surplus, a all these workers who paid into Soc Security will receive their benefits."

Mark Eckenweil
Newport Coast, Cal

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MIDDLE CLASS DREAMS
The Politics and Power of the New American Majority
By Stanley B. Greenberg
Times • 338pp • $25

THE SEETHING MAJORITY

In the world of political analysis, Macomb County in suburban Detroit is legendary. During the 1960 Presidential election, this white, blue-collar enclave was the most Democratic suburb in the U. S. But in 1980, nearly 70% of the votes went to Ronald Reagan. At the request of local Democrats, a Yale University professor named Stanley B. Greenberg went to Macomb to make sense of all this. In a well-regarded study, he wrote that Reagan Democrats, battered by auto-industry layoffs and rising taxes, felt the Democratic Party had abandoned them.

Greenberg later joined Bill Clinton's 1992 Presidential campaign, helping to hone a populist message that won back many working-class families. But in last year's congressional elections, lower-middle-class voters who considered themselves Democrats once again went with the GOP.

The stunning 1994 upset forced Greenberg, who is the White House pollster, to revise *Middle Class Dreams: The Politics and Power of the New American Majority*, which was in galleys last fall. The book then ended with Clinton's election and its possibilities for Democratic renewal. Still, in the finished version, Greenberg sticks to his basic premise: Middle-class voters are sick of both parties. They have realized that "the Democratic Party no longer championed the common people, and the Republican Party no longer enriched the many."

This "crash of the dominant and inspiring visions that gave Americans confidence" has left voters angry and dispirited. Now, both parties are scrambling to write "a new social compact" to win back Middle America. Greenberg gives Democrats the odds, dismissing the 1994 Republican romp as "reflecting no greater confidence in the party or top-down Reaganism."

Greenberg traces how both parties managed to alternately hold middle-class affections. Republicans stayed in as long as their "top-down" view of business leadership led to growth. Democrats prevailed when a "bottom-up" approach was more appealing—in eras of jarring change, such as the Great Depression, when voters sought government help. But middle-class disillusionment began in the Johnson Administration. To struggling workers, the Great Society—and subsequent Democratic strategies—narrowed the definition of the "common people" to mean minorities and the poor. They also felt betrayed by the Reagan Revolution, says Greenberg, because supply-side economics did nothing for them. Voters, says Greenberg, were ready for anyone that placed middle-class economic issues first.

Clinton seemed the answer, Greenberg writes. He rejected the "false choices" between left and right, devising a message that bridged the interests of the working classes and the poor. The agenda included job training for the middle class, government reform, and the end of some corporate tax breaks. The message resonated. Bush lost many Reagan Democrats and lower-middle-income voters he had won over in 1988.

Greenberg's discussion of the pitfalls facing both parties is on the mark, but his affiliation with Clinton hobbles his analysis of how far his man can go in forging a new coalition. True, compare with previous Democratic Presidenti candidates, Clinton did better among in dependent men, Republicans, whites, an lower-middle-class voters. But Ros Perot won 19% of the vote—mostly th swing voters the major parties covete And Clinton's 43% of the vote was th same as Hubert Humphrey's in th three-way race in 1968. In other word the core of Clinton's support came fro groups that traditionally vote Democrati

And Greenberg absolves his boss much of the blame in 1994. In survey and focus groups mentioned in his pos election update of *Middle Class Dream* he finds a seething electorate. Americ he says, "may be doomed to a faile politics . . . incapable of recapturing th public's imagination." But Greenber doesn't hold Clinton accountable. H says only 8% of voters cited Clinton describing the "mess in Washington."

Greenberg knows better. In a pos election poll for the centrist Democrat Leadership Council, he found th Southerners, particularly independent "turned against the Democratic Par and the President. By a 2 to 1 margi these independents thought Clinton w taking the country in the wrong dire tion." Clinton was not pleased that h pollster released these findings—a they aren't in the book.

Greenberg lists numerous reasons f middle-class anger, from partisan bicke ing to the dominance of special interes to high taxes. But Clinton's role can't ignored. While he brilliantly tapped in middle-class anxieties in 1992, dropped the ball in office. He failed push for a middle-class tax cut, ca paign-finance and lobby reforms, and welfare overhaul. His health-care pl was a debacle. His Reinventing Go ernment efforts got scant attention. H job-training plans went nowhere.

Since the election, Clinton has r vived his middle-class theme. Given t growing saliency of the affirmativ action issue, it may be trickier this ti for Clinton to bridge the gap betwe Macomb-type voters and minorities. B if Greenberg is right, neither party c expect voter loyalty unless it comes with a new contract with workers—a lives up to it.

BY SUSAN B. GARLA

Washington Correspondent Garla covers the White House.

GREENBERG ABSOLVES CLINTON OF MUCH OF THE BLAME IN '94–BUT HE KNOWS BETTER

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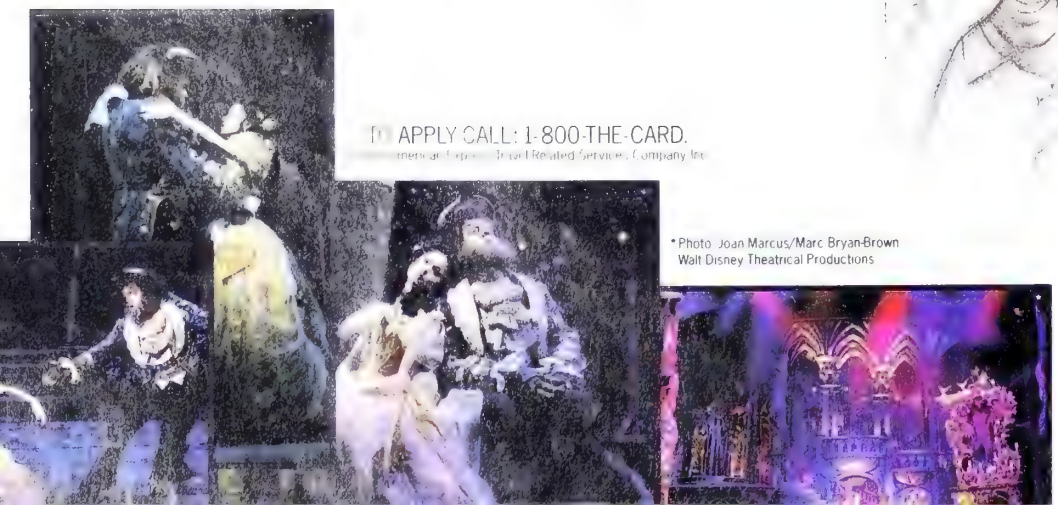

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"WHEN HEADS ARE STILL AND SEATS AREN'T SQUEAKING, YOU KNOW IT'S WORKING."

BY STEPHEN H. WILDSTROM

THE PALMTOP COMES OF AGE

It has taken a long time, but Apple Computer's Newton is finally making the transition from being a curiosity that sort of reads your handwriting to a machine that does real work. Newton's maturity, along with new products from Motorola, Sharp Electronics, and others, raises the odds that personal digital assistants may become useful business tools.

The latest Newton, the MessagePad 120, offers only modest hardware improvements, such as a doubling of the maximum built-in memory to 2 megabytes. For users, the change that matters is cheaper, more powerful software that gets around Newton's legendary difficulties reading handwriting, making it easier to use online services and to help you track expenses.

SHORTHAND. Software has gotten better and cheaper in part because Apple has realized that nearly all Newton buyers already own either a Macintosh (about 75%) or a Windows PC. Originally, almost all add-on Newton programs ran on credit-card-sized plug-in cards, which are far more expensive than floppy disks. To make matters worse, the Newton still has only one slot, and that is usually filled by an auxiliary memory card.

Now, most software is distributed on floppy disks and is downloaded to the Message Pad using a $99 Mac or Windows Connection Kit.

The most important of this new breed of software is Graffiti from Palm Computing. This $79 utility, also available for the Sony Magic Link (BW—Oct. 10) and Motorola's Marco and Envoy PDAs (BW—June 13), lets you use a sort of printed shorthand instead of personal handwriting on the Newton or the tiny onscreen "keyboard" on the Newton, Magic Link, and Envoy. I was pleasantly surprised to find that it took me only a few minutes to learn to write letters the way Graffiti wants. An "a," for example, is written like a capital "A" with no crossbar. With an hour or so of practice, I could write quickly and with near 100% accuracy.

Graffiti makes other applications far more usable. One beneficiary is Ex Machina's $80 PocketCall, which lets you call online services and bulletin boards. Then there's Black Labs' $99 CIS Retriever, which is a big help for calling CompuServe Inc. from your Newton. Later this spring, Intuit Inc. plans to ship a long-awaited Newton version of its Pocket Quicken financial-management program similar to those available for Envoy and Magic Link.

PDAs still have a long way to go to realize their full potential. The biggest problem remains communications. The external modem is about the size of a pack of cards and is very awkward to use unless you are seated at a desk. The $339 Motorola Select cellular modem allows you to connect through your cellular phone—but the job virtually requires three hands. Furthermore, wireless will remain impractical for most users until radio communications become reliable, more available, and cheaper.

EVER TINIER. While Newton has been struggling to create a wholly new idea in computing, the ZR-5000 Zaurus is a logical extension of Sharp's successful Wizard organizer line. Thinner and lighter than the Newton and incorporating a real, if diminutive, keyboard, the Zaurus offers limited software. But it's handy for keeping track of contacts, schedules, and chores. I found that its modem, which attaches firmly to the side of the device, makes the Zaurus easier to use than the Newton to send off a quick fax.

PDAs still aren't for everyone. But if you need supermobile computing in a package small enough to fit a pocket—at least, a big one—the products and their new software are worth a fresh look.

TWO NEW PDAs

MODEL	FEATURES	LIST PRICE
NEWTON MESSAGEPAD 120 (BOTTOM)	1 MB RAM, 2400 bps data/9600 bps fax modem.	$699
ZAURUS ZR-5000FX (TOP)	2 MB RAM, keyboard, 2400/9600 fax modem.	$849

DATA: APPLE COMPUTER INC., SHARP ELECTRONICS CORP.

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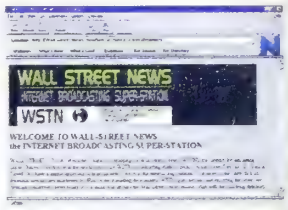
WEB SIGHTINGS

INVESTMENT INFO

Internet surfers have learned that the World Wide Web is relatively poor in financial and investment-related information. A good starting point on the Web for exploring such financial sites as exist is offered by Wall Street News (http://wall-street-news.com/forecasts). The home page provides links to such resources as the University of Texas' financial economics server and the Chicago Mercantile Exchange's information on commodities trading. Also available: a free E-mail service offering snippets of advice from the publishers of four dozen investment newsletters.



CORPORATE SYSTEMS

DATA FISHING PONDS

Efforts by corporations to centralize vast stores of information in "data warehouses" are counterproductive, according to a new study by Forrester Research, based in Cambridge, Mass. The problem is that no matter how hard information-system staffs work to make the data accessible, it often goes unused and ignored by employees, "who have neither the time nor the training to navigate these oceans." Instead, Forrester recommends that companies build "fishing ponds": local databases designed to give business units the specific information they need.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

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BY RUDI DORNBUSCH

BAILOUTS ARE BAD MEDICINE– IN MEXICO OR ELSEWHERE

MISGUIDED: No one wants to see more fiscal crises, but a new fund for nursing sick nations would do nothing but reward poor policies

Rudi Dornbusch is professor of economics at Massachusetts Institute of Technology

While the memory is still fresh, there are two lessons to be drawn from Mexico's collapse. Sharp practices in currency and debt management can go badly wrong. And we shouldn't institute a world rescue fund for the debts and currencies of mismanaged economies.

Mere months ago, Mexico was everybody's darling. All those fine reforms notwithstanding, Mexico made the critical mistake of overvaluing its currency and hanging on and on. Wage-price agreements perpetuated inflation and stood in the way of competition and employment. The central bank expanded credit at a vigorous rate, financing rather than stemming the capital flight.

The mistake was not the Dec. 20 devaluation—by that time, the central bank was flat broke, and there was no alternative. The mistake was to procrastinate and then swallow the poison pill of dollar-valued short-maturity debt. That is why Mexico's economy is deathly ill today. When Mexico ran out of money, it had two crises in one: a currency crisis that could be remedied only by a deep depreciation of the peso and a debt crisis that arose from the totally liquid dollar debt. The disillusionment of investors was such that nobody knew whether Mexico was illiquid or insolvent, which meant that even 30% to 40% interest in dollars wasn't enough to lure investors.

As far back as the South Sea Bubble, investors have been had in foreign stocks and bonds. Shouldn't they have been suspicious of 52% stock returns on average in 1989-93? A realistic assessment of Mexico would have included a look at the downside. Among the indications foreshadowing trouble were these: no growth to speak of (compared with, say, Asia or Chile), a huge external deficit, a conspicuous currency overvaluation, a rising incidence of nonperforming loans in the banking system, and capital flight by wealthy Mexicans.

SEARCH FOR STABILITY. So don't feel sorry for investors in Teléfonos de México, *cetes*, or *tesobonos*. From tulip booms to Mexican losses, the rule is *caveat emptor*. The next round of investors in Mexico should move in only after they see a genuinely independent central bank, a competitive exchange rate, a moderate external deficit, the end of wage-and-price guidelines, and a prospect for growth. Anything else means instability, both financial and political.

Should we institutionalize rescue operations into some sort of lender of last resort, s help is on hand in a more timely fashion There are two ways the international comm nity can face a financial crisis in any countr One is to look the other way. In that cas holders of stock suffer capital losses, an bondholders are exposed to default and a r structuring, unilaterally or with the cred tors. There is ample precedent for this a proach—witness the bondholders' protecti associations that flourished in the 19th cent ry and functioned even into the 1960s. Th other way is for the Group of Seven and th International Monetary Fund to intervene a crisis and ward off capital flight and spec lative attacks with a financial package overwhelmingly large that even the Georg Soroses of the world would have to back o

KICKING TIRES. Mexico is a striking examp of what can go wrong in the heat of a cris A call for a lender of last resort becom plausible, and nobody wants to think throu the consequences. Any proposal to create world antispeculation fund for poor cred risk countries is a terrible idea. It is unthin able that we would bail out countries th have a 20-year record of refusing to privati thereby perpetuating fiscal laxity and po currency management. Their bad debts are place, waiting for a fiscal showdown with d illusioned investors. A fund to support eco mies such as Greece or Italy would cost fortune, reward poor policies, and more like than not give financial mismanagement extra half year. The international communi is unwilling or unable to regulate and supe vise effectively what happens in a soverei country's public finance and monetary mana ment. The international community must gi a firm no to any bailout scheme.

The best assurance for sound moneta and fiscal policies is wary investors who k the tires and policymakers who rise or fall their policies. Nobody wants a crisis, ev less one that spreads to innocent bystande Yet in a world of sovereign investors a sovereign policymakers, socializing the los will maximize them. Europe's reluctance follow U. S. leadership in the Mexico resc program reflects, in part, a perception th there was really no system crisis but rathe U. S. overreaction. But it also reflects app hension about being drawn into a much m expensive situation than is already on t horizon in Southern Europe.

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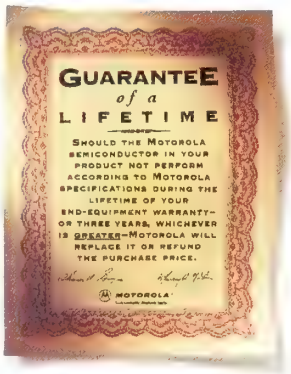

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BY GENE KORETZ

THE U.S. BUDGET DOES BALANCE

If you don't count interest, that is

Notwithstanding the current hue and cry in America over bloated government, it's worth noting that downsizing government in the U.S. is already well under way.

For one thing, economist Joseph Carson of Dean Witter Reynolds Inc. observes that spending for goods and services at all levels of government last year hit its lowest level as a percent of gross domestic product in more than 40 years (chart). With the Republican Congress now drawing a bead on transfer payments and only modest tax cuts likely to pass muster, he thinks the deficit outlook could improve significantly.

A critical milestone is the fact that the federal government's so-called primary balance—that is, its budget position excluding interest payments—has moved into surplus for the first time since 1989 and seems likely to remain in the black next year as well. "Interest payments reflect the government's past sins," says Carson. "The primary balance reflects its current fiscal morality."

With the primary balance in surplus, it becomes easier to cut the deficit progressively. Economist Edward S. Hyman of ISI Group Inc. notes that federal receipts so far in fiscal 1995 are 8% over last year's, while outlays including interest are up only 2%—trends that could actually produce a balanced budget within a few years if they continued.

Although that's an improbable dream, there's little doubt that the pendulum is swinging toward less government spending. Over the long run, says Carson, that should produce a smoother, less volatile business cycle, with lower highs and shallower declines. Over the short run, it implies that U.S. fiscal policy, which has been projected to be essentially neutral over the next few years, will actually be a bit restrictive.

The good news is that the impact of fiscal restraint on the economy is likely to be offset by falling interest rates—either as a result of Federal Reserve action or the behavior of the financial markets themselves. Indeed, the sharp 75-basis-point decline in five-year Treasury notes since the start of the year not only demonstrates the markets' responsiveness to signs of a coming slowdown, but also offers the welcome prospect of lower outlays for interest on the national debt.

NOT JUST OTHER PEOPLE'S MONEY

CEOs are huge stockholders, too

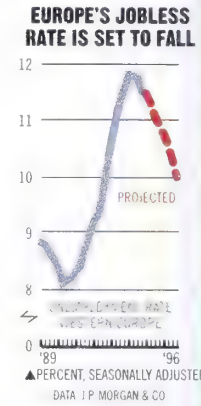
When top corporate officers say they're looking out for the interests of shareholders, they're not just talking about outside investors. An analysis of proxy statements of the 100 largest U.S. industrial corporations by consultants William M. Mercer Inc. indicates that the median value of company shares owned by chief executive officers at the end of last year was a cool $16.5 million.

If you add the holdings of other top executives and directors, then the typical company's top brass owns nearly $93 million worth of its shares, or almost 1% of the market value of the company's common shares outstanding. So America's top executives have a great deal riding on their own company's performance—and the stock market in general.

EUROPE'S HIGH TAXES CLIMB . . .

Will its competitiveness suffer?

Although U.S. fiscal policy could turn modestly restrictive this year, Europe's fiscal screws are being tightened dramatically. Economists at *The Bank Credit Analyst* note that many European governments must slash their deficits and debt burdens to meet the criteria for entry into the European Monetary Union or, in several cases, to avoid runs on their currencies. The Organization for Economic Cooperation & Development indicates that Europe's structural deficit will contract by 1% of gross domestic product through 1996—the most severe tightening of fiscal policy in recent memory.



What's more, many European countries are raising taxes, even as they try to limit social spending. Gasoline taxes are being raised in Britain, France, Italy, and Spain. Alcohol taxes are rising in Britain and Spain. Value-added taxes are headed higher in Italy, Spain, Switzerland, and Sweden. And income taxes are rising in Germany and Sweden.

This reliance on higher taxes to achieve fiscal balance (after a spate of tax-cutting a few years ago) contrasts sharply with America's growing belief that tax hikes can be dangerous to a nation's economic health.

. . . BUT SO SHOULD EMPLOYMENT

Low labor costs are a good omen

Despite Europe's impressive economic upturn last year, employment declined and the jobless rate hit 11.7%—reinforcing the view that the Continent's ability to create jobs is badly flawed. Nonetheless, Bruce Kasman and David Mackie of J.P. Morgan & Co. predict that job growth is about to rebound.

The two economists note that economic growth and industrial production are both rising faster than they did in the recoveries of the 1970s and 1980s, and European companies are keeping a much tighter lid on wages. Indeed, real unit-labor costs in Western Europe are now at their lowest level in more than 20 years and are still declining as productivity posts a cyclical upturn.

That's important, because nearly all of Europe's private-sector job creation during recent decades occurred in periods of both rapid economic growth and declining real labor costs. Based on that pattern, J.P. Morgan projects that employment in Europe should climb about 1% a year in both 1995 and 1996. And that pickup, together with a slowdown in growth in the labor force, should be enough to reduce the region's jobless rate to 10% by the end of next year.

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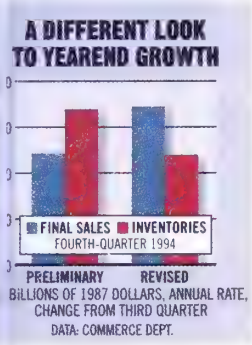
' JAMES C. COOPER & KATHLEEN MADIGAN

'HE ECONOMY MAY BE HOTTER 'HAN WALL STREET THINKS

U.S. ECONOMY Federal Reserve Chairman Alan Greenspan told Congress Feb. 22 that it looks as if the economy is slowing. a result, Wall Street now believes that Fed tighten- ; is on hold, if not finished, and the financial markets ve swallowed the soft-landing scenario hook, line, d sinker. There's only one thing missing: Proof that y of this is actually coming to pass (page 34).



To be sure, higher interest rates are dampening economic activity. But so far, most of the impact is concentrated in housing, while the fundamental supports for demand elsewhere remain solid. In particular, consumer confidence is still high, and incomes are strong enough to fuel a sturdy pace of consumer spending. Moreover, amid the ongoing :hnology boom, strong profits continue to nourish ɔital spending by businesses. True, exports to Mexi- will suffer, but markets for the other 93% of U. S. ports are improving.

The fact is, Greenspan did not say anything much dif- 'ent from what he and other Fed officials had said in evious weeks. The only thing that has changed is the ırkets' interpretation. If the data in coming weeks fail support the markets' rosy view, the recently smooth le on Wall Street could turn bumpy.

IE POTENTIAL POTHOLE is the Commerce Dept.'s vision of fourth-quarter gross domestic product. It d that the economy grew 4.6% last quarter, instead 4.5%. More important, the mix of GDP growth sug- sts that the economy is better capable of sustaining ıch of its 1994 momentum.

Growth is now tilted more favorably toward demand d less toward overrapid inventory gains that could w output in coming months (chart). Commerce re- sed sharply downward last quarter's inventory ɔwth, from $68 billion to $48 billion. Final sales of ods and services, instead of rising only 3.7%, now ow a robust 5.3% gain.

Consumer spending growth last quarter was revised ward to an annual rate of 5%, from 4.6%, but that ce was still well below the brawny 7.7% surge in real ertax incomes. With incomes posting another solid in in January, America's consumers appear to have e means to spend at a more rapid pace than the recent softness in the retail-sales data suggests.

Not surprisingly, consumers still feel upbeat about their current economic lots, although they are less optimistic about the future. The Conference Board's index of consumer confidence dipped to 99 in February, from 101.4 in January. All the decline occurred in the expectations component, while households' assessments of their present situations rose (chart).

The Conference Board says the report suggests that consumers are still quite sanguine about the economy and that they see no signs of a slowdown. Historically, a reading around 100 has been consistent with a "lively" economy, says the Board.

Households did report a decline in their intentions to buy interest-sensitive goods, such as houses, cars, and appliances. And the National Association of Realtors said that sales of existing homes fell to a two-year low in January. But so far, any weakness in consumer demand for durable goods has not shown up in manufacturing activity.

ON THE CONTRARY, factory orders continue to come in faster than companies can ship the goods out. January orders at durable-goods factories rose 0.6%, a small gain but larger than generally expected. Excluding a sharp drop in defense orders, the other 96% of industry bookings rose a solid 2.6%. After a sturdy gain in the fourth quarter from the previous quarter, orders began the first quarter well ahead of their fourth-quarter level, signaling continued momentum.

The nation's purchasing managers did point to a slower pace of activity in February, however. Their composite index of orders, production, deliveries, inventories, and employment dipped to 54.5%, from 57.9% in January. Except for inventories, each component declined. The closely watched index of prices paid for materials and supplies also fell, but remains close to the 15-year high that it hit in December.

Still, the trend in orders remains up. And since order books are filling up so fast, the backlog of unfilled orders is swelling. Excluding aircraft, unfilled orders rose 1% in January. That gain extends a 12-month string, with the largest increases coming in recent months. The rising backlog means that factories have plenty of or-

ERIC HOFFMANN/BW

ders in the pipeline to keep production lines rolling and payrolls rising (chart).

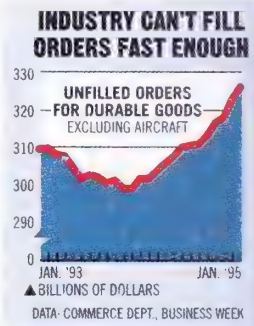
Demand by Corporate America for new equipment also remains strong. Factory orders for nondefense capital goods rebounded 8.6% in January, after plunging bookings for new aircraft caused a steep drop in December. Excluding planes, orders still jumped 5.8%, putting them far ahead of their fourth-quarter level.

Buoyant equipment orders also suggest that exports remained strong in January, since foreign demand is so heavily weighted toward capital goods. The Commerce Dept. said fourth-quarter exports were much greater than was first thought, contributing to a narrowing in the GDP measure of last quarter's trade deficit, instead of the widening that was first reported. And while the purchasing managers expressed concern over Mexico, their measure of export orders remained high.

THE RELENTLESS STRENGTH in capital-goods orders makes the first results of the Commerce Dept.'s newly redesigned survey of investment plans a bit suspicious. According to the survey, businesses plan to increase their outlays for new buildings and equipment by 6.6% in 1995, unadjusted for price changes, down sharply from the 13.7% rise expected for 1994. But keep in mind that the survey for 1994, taken as late as last summer, projected a gain of just 8.8%.

Clearly, business investment will not maintain its breakneck pace of last year, but healthy profits, risin operating rates, and a hint of more pricing power i basic industries suggest continued pep in capital spen ing in the first half of the year. Also, much of the i vestment boom in new equipment has been driven b structural forces, including the push to enhance con petitiveness, not by the business cycle alone.

And it's not just equipment. Businesses are also starting to add new plants, especially in manufacturing. New contracts for plants, offices, and warehouses, a leading indicator of building outlays, jumped 8% in January, says F. W. Dodge Div./McGraw-Hill Inc. Overall contracts were unchanged from December, reflecting a drop in housing construction. But over the past year, nonresidenti building is up 4%, even though housing is down 11%



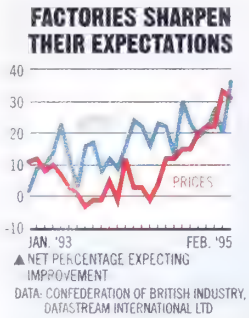
With the fundamentals of capital spending and co sumer demand contradicting Wall Street's increasing rosy view of the economy and Fed policy, it's too soo to buy into the Goldilocks scenario of economic grow that's not too hot, not too cold, but just the right ten perature to keep the Fed at bay. If growth starts loo ing hot again, investors could get burned.

EUROPE

BRITAIN: AFTER BARINGS, INFLATION LURKS

The collapse of Barings PLC has temporarily diverted the Bank of England's attention from another thorny issue: British inflation. But soon enough, the price outlook will be back on the front burner.

Inflation worries had eased a bit after the sharp drop in January retail sales and the recent softness in industrial output and auto sales. Then came the February survey by the Confederation of British Industry. The CBI said the economy wasn't slowing down and price pressures remain high (chart).



The survey found that manufacturers expect to lift output in coming months at the fastest rate in seven years. Expectations for orders were buoyant, with the index of export orders at a record high. And the percentage of companies expecting to raise prices edged down only slightly below January's five-year high.

The monetary authorities know that companies' pricing behavior will depend on the strength of the economy. On that score, exports will continue to power growth this year, although imports will come in faster, and capital spending is set to pick up. The CBI survey shows upbeat investment plans, and bank lending to corporations has jumped recently.

Consumers will play the pivotal role, however. February confidence was down, and spending remains depressed by higher taxes and three interest-rate hikes, totaling 1.5 points, since September. Still, income growth should improve because of more hiring, overtime pay, and profit-linked bonuses. Overall, the economy is expected to grow 3.3% in 1995, after 3.9% in 1994.

But that's too fast to keep inflation down. Already, factory-input prices are up 12% from a year ago, and finished-goods prices are up as well. Annual retail inflation picked up to 3.3% in January, from 2.9% in December, and higher mortgage costs will push it up more. But even excluding mortgages, the underlying inflation rate seems destined to exceed the Bank of England's current operating target of 2.5%, implying yet another rate hike by spring.

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GLOBAL MARKETS

THE LESSON FROM BARINGS' STRAITS

Treacherous world markets demand ever-tougher control

It's a long way from the dreary public-housing complex in the London suburb of Watford, where Nick Leeson grew up as a plasterer's son, to Singapore's exclusive Orchard Road section. The cocksure head of futures trading in Barings PLC's Singapore office, Leeson earned a $1 million bonus last year, drove a Porsche, and sailed his yacht on weekends off Malaysia. But all that came crashing down with the Feb. 25 revelation that Leeson, 28, had piled up $1.3 billion in losses on spoiled derivative deals in Singapore and Osaka.

In one humiliating blow, Leeson's huge trading loss wiped out the blue-blood investment bank's $900 million in capital and prompted the Bank of England to put Barings into bankruptcy. The collapse also sent shivers down the spines of bankers around the globe. "With so much money moving around so quickly, this is the kind of thing all of us worry about," says First Chicago Corp. CEO Richard L. Thomas. "It's stunning to think that a 233-year-old institution can be brought to its knees overnight."

EYE-POPPING. Stunning, perhaps. But not totally surprising. Over the past year or so, one financial shock after another has hit the front pages and CNN. A common thread runs through them: In the global liquidity boom of the early 1990s, when more than $1.5 trillion in U.S. mutual-fund money flooded the globe, money was so available, markets so ebullient, and profits so rich that simple safeguards and controls went by the board. Now, as interest rates rise and the margin for error narrows, many are paying a high price for inattention. Says New York economist Henry Kaufman: "Whether it's Mexico or Barings, these problems reflect inadequate monitoring and supervision."

By any standard, the list of financial accidents since 1994 is eye-popping. Hedge-fund manager George Soros, for example, dropped $600 million by misjudging the strength of the Japanese yen. Procter & Gamble Co. lost $102 million on leveraged derivatives purchased from Bankers Trust Co. The venerable investment house of Kidder, Peabody & Co. was sc off and dismembered after Joseph Jett allegedly ran up $3 million in paper profits on bogus bond deals. Wealthy Oran County, Calif., went bust when its treasurer made a spe tacularly wrong bet on the direction of rates. And Mexico, t darling of emerging markets, had to seek a $53 billion inte national bailout after its debt-fueled economy ran out of ha cash.

Now, Barings joins the casualty list. Administrators fro Ernst & Young are selling off pieces of the firm. The Dut bank ABN Amro is buyings Barings' corporate finance ur

BARINGS

▲ After Singapore-based trader Nicholas Leeson ran u some $1.3 billion in losses o Asian futures markets, the Bank of England forced the 233-year-old securities hous into bankruptcy on Feb. 26. Receivers plan to sell the firm's main businesses to pa off its debts.

l Merrill Lynch & Co. and esdner Bank may bid for ıer parts. But long after ɜ disposal is over, regula- 's and financiers will still asking whether Barings' uation was unique. Many nk not. Warns Bank of ıgland Governor Eddie orge: "What happened to rings could happen to any ancial institution in the world." Especially if one individu- is given enough leeway to bet the entire store.

OSH OF FUNDS. In the easy-money boom, too many secur- ɜs executives lost the ability or will to scrutinize high-ener- traders or guard against unethical salespeople. Too many ıkers and CFOs neglected to ask whether they understood ɜ complexity—or the downside—of the highly leveraged de- atives they were using to hedge financial risks. And as an lux of some $300 billion in foreign portfolio money sent ɔck and bond markets soaring in developing countries, too ıny investors and fund managers stopped asking basic estions about disclosure, accounting, value, and risk.

Fortunately, the accidents of 1994 and '95 have not brought ɜ financial world to its knees. Even with the Federal Re- 've and some European central banks tightening, so many llions of investment dollars are still sloshing around the globe that it's hard for any one event to disturb the momentum for long. In fact, faced with adversity, the global capital market has done a credible job of making capital flow from the basket cases to the healthy.

The affair has caused soul-searching among financiers worldwide. "If this happened at an institution that's supposed to be high quality, what's going on at lesser investment banks?" asks Henry T. C. Hu, a University of Texas professor and derivatives expert. "Perhaps we've been too complacent, and things aren't as clean as people thought."

Chastened, the world's exchange officials, central bankers, and financiers also want to know how the Barings meltdown happened and how they might prevent another one. What they are learning is nothing short of remarkable. It shouldn't be possible, but a lone trader bought enough futures and options contracts in three weeks to amass a $27 billion bet. His local bosses, the exchange regulators in three Asian cities, and Barings' managers in London stayed in the dark.

Leeson's trading-floor peers knew something was up. But

MEXICO

▲ In December, Mexico slid into a crisis after the government ran down its currency reserves defending the peso. Investments that had fueled the nation's boom fled. Now, despite a $53 billion U.S.-led bailout, the peso is 17% lower than on Jan. 2; Mexican stocks are off 46% since fall.

ORANGE COUNTY

◀ On Dec. 6, Orange County, Calif., filed the largest municipal bankruptcy in history after its derivative-rich investment pool sustained a $1.7 billion loss. The loss ate into operating funds badly needed by schools, water districts, and the county itself.

PROCTER & GAMBLE

▲ On Apr. 12, 1994, Procter & Gamble announced a $102 million aftertax charge to close out two leveraged interest-rate swaps. P&G subsequently sued Bankers Trust, charging that Bankers didn't accurately and fully disclose the terms and risks of the two swaps it did for P&G. Bankers vigorously denies the charge.

KIDDER

▶ On Apr. 17, Kidder Peabody discovered that one of its traders, Joseph Jett, had generated $350 million in phony trading profits. After Kidder declared a $210 million loss, parent General Electric sold the unit to Paine-Webber late last year. Jett, who claims he is innocent, is being investigated by the SEC and the U.S. Attorney's Office.

(L.) OLIKWISE FROM TOP LEFT: DAN GROSHENS; SYGMA; DENIS ARBOLI; ANNE SCHUSSEL SYGMA; AXEL KOSTER

Leeson acted as both trader and manager, often settling his own trades in violation of exchange rules

they didn't sound the alarm, because Barings had been taking huge positions for years in Nikkei stock-index futures as part of a low-risk arbitrage operation that tried to profit from minute price differences in contracts traded in Singapore and Osaka. Then, around Jan. 26, Leeson mysteriously switched from arb to speculator. He converted all his contracts to buys—most likely in the belief that the destruction caused by the recent Kobe earthquake would stimulate the economy and push up the Nikkei.

When the stock market didn't cooperate, Leeson sold put and call options to raise cash for margin calls and bet that the market would settle into a narrow range. But as the Nikkei continued falling, Leeson is thought to have made one last roll of the dice on Feb. 20.

His losses had accumulated to about $700 million, and the exchanges wanted Barings to put up more cash to cover his deficit. The Bank of England says Leeson then fooled Barings officials in London into writing checks for margin calls, likely by saying the trades were on behalf of a corporate client whose funds would be deposited with Barings in a few days. When he couldn't produce the funds, Leeson fled, leaving behind a note saying: "I'm sorry."

What went wrong is simple: Barings allowed Leeson to wear too many hats. Preliminary investigations discovered that Leeson was both trader and manager, often settling his own trades. That was in violation of Osaka exchange rules and of industry practice, which keeps traders apart from back-office staffers who confirm transactions and write checks. "Leeson was the front office and the back office," says Graham Newall, head of futures trading at Barclays Bank PLC. "You can't stop someone from going berserk, but you can have a system to catch it in 24 hours."

NO RANDOM CHECKS. A Barings source says Leeson was allowed to clear trades because of his previous experience as a settlement clerk at Morgan Stanley & Co. Whatever the reason, critics say Barings clearly lacked the most elemental of security systems to keep track of its traders' activities. For example, Daniel Hodson, CEO of the London International Financial Futures Exchange, believes that Barings lacked informal, back-channel communication links with exchanges, as well as simple random checks of how well its personnel followed rules. And many outside observers say Barings management neglected to investigate why the firm's trading volume was soaring.

To catch such discrepancies, some investment banks, including Merrill Lynch, now have independent risk-management units reporting directly to the CEO. Merrill set its unit up after losing $377 million from unauthorized trading in 1987. But at Barings, says Peter Letley, deputy chairman of HSBC Investment Banking Ltd., "there were no independent controls." That's all the more dangerous when traders are dealing with derivative contracts whose value can fluctuate wildly even on small movements in stock, bond, or currency prices. Says Robert Gumerlock, managing director for risk control at Swiss Bank Corp.: "Derivatives can give you enough leverage to blow yourself up."

NICK LEESON "I'm sorry"

Paying too little heed to this reality can be a big problem for all kinds of companies. Abraham M. George, CEO of Multinational Computer Models Inc., helps international corporations manage currency and interest-rate risk. A typical portfolio these days, he notes, may contain a bewildering array of fixed and floating-rate debt, swaps that switch among currencies, options, structured notes, and more. He doubts whether many executives even know if their own treasurers understand the quirky behavior of the instruments in their portfolios. Asks George: "When you have a complex position do senior managers know what it's worth at any given time?"

LURE OF LUCRE. Investors are asking much the same question of mutual funds, which moved more than $300 billion overseas in the 1990s in search of high returns in emerging markets. It may have been this flood of foreign capital, as much as economic and political reforms, that enabled emerging-market bourses to outperform those in industrial countries by nearly 3 to 1 in the early '90s.

But as markets climbed, many novice fund managers abandoned common sense for the lure of a quick buck. Eagerly acquiring Chilean bank stocks at twice book value or Thai telecom issues with price-earnings ratios of 100, "they understood how to run models, but they didn't really understand whether their earnings estimates were meaningful," says Bruce B. Bee, a veteran global money manager in Denver. So when liquidity started to erode last year, many markets that were high on U.S. cash swiftly returned to more normal valuations.

What should be done about the oversight gap? The solution probably isn't more regulation. The Bank of England is now under fire for missing another major case of deception, having taken heat from the 1991 failure of Bank of Credit & Commerce International (BCCI). But "don't talk to me about rules," snaps central bank chief George. "We've got rules galore. Unfortunately, we've also got criminals."

Some of these will always slip through holes in the system. But as Barings executives found out too late, a far greater willingness to ask tough questions—in good times and bad—might have kept the historic investment bank alive. When the market dishes out discipline, whether because of Mexico's economic misdeeds or Barings' trading scandal, punishment can be swift and severe. By refusing to bail out Barings, the Bank of England made that point crystal clear. Not every failure can be prevented. But a good deal more skepticism would go a long way toward limiting the losses.

By Paula Dwyer in London and William Glasgall in New York, with Dean Foust in Washington and Greg Burns in Chicago

COMMENTARY

By Amy Barrett and Dean Foust

IT'S TIME TO GUILLOTINE GLASS-STEAGALL

For more than 60 years, the Glass-Steagall Act that separates banks and brokerages has been an Iron Curtain dividing the financial-services industry. Lenders and brokers have coveted each other's territory and maintained massive armies of lobbyists to repel an invasion of their turf by the enemy.

But now it's surely time for Congress to buck up its courage and tear down the remnants of Glass-Steagall. Bank regulators already have punched loopholes in that legal barrier by giving some of the best-capitalized banks limited entry into the underwriting business. And less-regulated financial companies have used creative techniques to sneak past Glass-Steagall with bank-like products. With the line between financial services blurred, Congress and the Clinton Administration should seize the opportunity to make the industry more efficient and more competitive in the global marketplace.

The Administration recognizes that the Depression-era law, which Congress passed to curb securities speculation by banks, has become an anachronism in today's financial climate. With less-regulated insurance companies and securities dealers stealing customers from banks and thrifts, the share of financial assets held by the depository institutions has shrunk from two-thirds in the mid-1940s to less than one-third today.

CONSUMER BASE. That trend explains why Treasury Secretary Robert E. Rubin unveiled a bank-reform proposal on Mar. 1 that would bring down Glass-Steagall. The bill has come under fire in the House for giving banks too much flexibility, and both chambers have reform bills of their own. But reform efforts in general are being applauded by Federal Reserve Board Chairman Alan Greenspan, who complains that the U.S. financial system "sadly operates under increasingly outdated restrictions and prohibitions."

Congressional opponents of reform argue that given banks' sorry record of imprudent lending over the past decade, granting them reentry into the securities business could be another disaster waiting to happen. But in truth, the banks' biggest losses have come not from diversification, but from excesses in their core business. Faced with a shrinking market share, bankers made risky loans to Third World governments, real estate developers, and leveraged-buyout artists. These costly gambles ultimately required a $70 billion Treasury loan in 1991 to shore up the depleted federal deposit insurance fund.

The U.S. financial system is hobbled by increasingly outdated restrictions

By eliminating the Glass-Steagall barrier, Washington actually will lessen taxpayer risk by allowing banks to expand further into a business they've shown a better penchant for managing: consumer finance. Bankers will be able to leverage their rich base of checking customers, home buyers, and credit-card holders to market insurance products, mutual funds, and other investments. With new evidence emerging that cash-flush banks are again lowering their credit standards, a broader base of business would help offset their loose-lending tendencies.

Ironically, it is the traditional opponents of financial-services reform who are clamoring most to dismantle Glass-Steagall. Investment bankers, who faced a severe liquidity crunch following the 1987 stock market crash, have long coveted their access to low-cost loans from the Federal Reserve during times of crisis. And insurance companies view banks as a more efficient distribution system than their own costly agent networks.

ROGUE TRADERS. Certainly, an overhaul of the financial-services industry comes with new risks. Congress must provide minimum safeguards for consumers, such as those who wrongly believed mutual funds they bought through banks were government-insured. The risks of new bank products must be stated clearly. And regulators must prevent financial institutions from illegally forcing customers to buy products or services as part of the price for a loan.

But the biggest risk by far is the possibility that the collapse of a bank's securities affiliate could ruin the parent company and drain the deposit insurance fund. The collapse of Barings PLC shows that in this new era of split-second speculation, banking reform must provide sturdy fire walls that prevent the damage caused by one rogue securities trader from spreading to the banking system. Among other things, the capital of the bank and securities units should be strictly segregated.

Banks have tried for generations to get a second chance from Congress, and they deserve one now. But lawmakers must take care that in unshackling the industry they don't turn the '90s into a repeat of the Roaring '20s.

Barrett and Foust cover financial regulation from Washington.

RICHARD DOWNS

THE ECONOMY

JUST HOW MUCH IS THE ECONOMY SLOWING?

Downward data, but business is booming. Go figure

Hallelujah! The Federal Reserve has spent a year preaching the need to slow down the U.S. economy. Now, a heap of not-so-great data seems to indicate that the central bank has gotten what it wanted—or is close to it, anyway. The Mexico crisis is weakening U.S. exports. Real retail sales, construction spending, and car and home purchases all have tapered off. Wall Street is convinced that a slowdown is under way: Since Fed Chairman Alan Greenspan hinted at slower growth during congressional testimony on Feb. 22 and 23, the Dow Jones industrial average has hovered at a record 4000 or higher. And bond yields have fallen to their lowest levels since last August—halfway through the Fed's tightening cycle.

There's just one little problem: Out in the real world, economic growth still seems to be sizzling. Computer makers such as Compaq Computer Corp. and Hewlett-Packard Co. say they are booking orders at a rapid clip. Metal foundries in the Midwest report that they are running at full tilt. And consumer confidence remains high. Jim Copitzky, divisional vice-president for home appliances at Sears, Roebuck & Co., still sees a lot of vigor: "During the first two months of the year, business has been excellent."

Who's right—Wall Street or Corporate America? Nearly everyone agrees that growth is slowing from its torrid fourth-quarter pace of 4.6%. But has the economy moved into a "soft landing" phase, where the expansion continues at a slow enough pace to head off inflation? Or is there too much pep left?

Donald H. Straszheim, chief economist at Merrill Lynch & Co., thinks that when all the data are in, 1995's first quarter "may well be the first quarter of the soft landing." If so, the economy is growing at a rate of about 2½%—widely thought to be the Fed's target for a sustainable, noninflationary expansion. That means the Fed can put monetary tightening on hold.

But what if growth is 3%? A half point difference may seem small, but t the Fed, it speaks volumes about infla tion. At a speed of 3% or greater, th economy faces excess demand and la bor needs that will force businesses t bid up wages and raise prices. The Fe will have to hit the brakes a few mor times—with every new hike edging th economy that much closer to recessior And the financial markets will backtrac as short-term rates head higher.

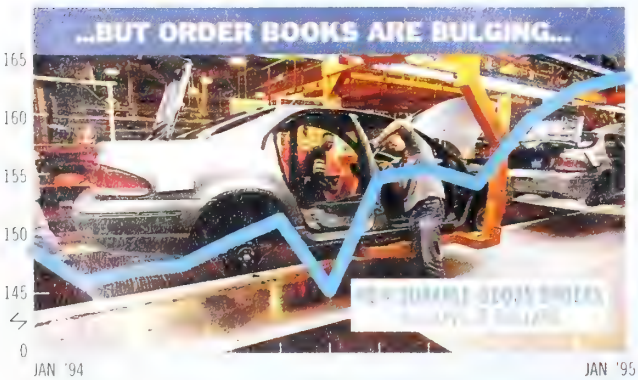
PC EXPRESS. Corporate executives sa they think the higher rates already i place are enough to keep growth slow ing through 1995. But signs of a slow down are few, even as the first quarte winds to a close. Durable-goods manu facturers saw new orders increase fo the third consecutive month in Januar rising 0.6%. Excluding defense, deman surged 2.6%. A big reason: increase strength from exports is buoying U.S manufacturers.

Take computer bookings. Hewlet Packard reported in mid-February tha orders for its computers are up a hug 26% from a year ago. At Compaq, Sen ior Vice-President and CFO Daryl White says Presarios PCs, which ar aimed at the consumer market, are ho sellers, and PC sales to businesses re main robust. "I'm encouraged by th demand we see," White says. Overal

Mixed Signals

The data always look contradictory when the economy is at a turning point. But the financial markets, at least, are convinced that the Fed now can stop raising rates.

DATA: COMMERCE DEPT., BLOOMBERG FINANCIAL MARKETS, BUSINESS WEEK



ıalysts have raised their 1995 growth timates for computer sales to well 'er 20%.

Demand also is strong for companies at supply materials to the makers of ıished goods. At Berlin Packaging ɔrp., a privately held Chicago company at makes glass and plastic bottles for e food, chemical, and cosmetics indus- ies, sales hit a record high in January, d the company expects that 1995 will stronger than 1994.

Meanwhile, the foundry industry, which ·ms metal parts that go into everything ɔm lift trucks to railcars, is hopping. elivery times for some castings have etched to three or four months. "A lit- breathing room" may be ahead, says ıvid Kanicki, an official with the Amer- ın Foundrymen's Society, a trade group. ıat would help, he says, because many ındries are "under so much stress, go- ; six, seven days a week."

ICONVINCED. Still, executives haven't ɔpped fretting about further rate ces. At the Association of Home Ap- ance Manufacturers, President Bob ɔlding thinks the appliance industry n do well at today's interest rates, th shipments projected to be about t in 1995 after a record year in 1994. ıt, he warns, "if [Greenspan] ratchets rates again, it could hurt us."

Any further move by Greenspan & ı. will depend on consumers, whose ending accounts for two-thirds of the ɔnomy. Howard Keen, chief economist Conrail, says the Fed will concentrate on moderating consumer demand. "The Fed is not too worried about growth on the supply side," Keen argues, because overproduction will lead to inventory imbalances. And to move excess goods, producers and retailers will cut prices—a plus for the Fed's inflation-fighting goals, Keen says.

CLOSE CALL

ɔwth with- inflation y already ınder way. t a fraction ;er, though, l the Fed y brake in

Consumers, meanwhile, aren't convinced that the econ- ıy has slowed. Only when asked about siness conditions six months from now Americans express concern.

So, while the markets are upbeat out the U.S. economy slowing gently ɔ a sustainable pace of growth, they ıy be a bit ahead of reality. Most of nerica hasn't heard about the slow- wn. Everyone has been too busy ɔrking.

By Kathleen Madigan in New York, th bureau reports

IN PORT AU PRINCE: *With once busy factories idled, joblessness tops 60%*

FOREIGN POLICY

ACT TWO IN HAITI

Will a Clinton-organized tour get U.S. execs to invest there?

Haiti once was a prized production base for RSK Industries Inc. But now it may be the undoing of the New York children's sportswear maker. The 1991 embargo that followed Haiti's military coup forced RSK to find other suppliers in the region, but few could handle the orders. Missed deliveries mounted, and now—with losses rising—RSK is looking for a buyer. "We've been hanging on by a thread, and the thread's about to be cut," says Chief Financial Officer Robert A. Kobre.

Such complaints have prompted the Clinton Administration to craft a plan to resuscitate Haiti's strangled economy. With time running out for RSK and other U.S. companies that once generated most of Haiti's exports, Washington has set its sights on luring new business investment—fast.

MANY MISSIONS. On Mar. 7, Deputy Secretary of State Strobe Talbott will take a planeload of U.S. executives on a two-day tour of Haiti. On board will be officials from Continental Grain, AT&T, and Texaco, among others. Talbott's aim: to promote deals to rebuild infrastructure and to generate jobs for Haitians.

This excursion is more a mission of mercy than the sort of deal-a-thon the U.S. recently has sponsored in India, China, and other countries. The Administration figures a stronger economy will bolster President Jean-Bertrand Aristide, who was restored to power by American troops last fall. As part of the effort, Talbott plans to unveil $50 million in Overseas Private Investment Corp. guarantees that will unlock millions more in commercial loans from Bank of Boston. OPIC is mulling a similar deal with Citibank. A $40 million multinational enterprise fund for new ventures is also in the works.

Despite a $1.2 billion international aid effort that is supplying Haiti with food, medicine, and support for civil reform, joblessness tops 60%. "Stability will elude [Haitians] without strong, steady, broad-based economic growth," Talbott told Congress in February.

BIG CHILL. The main question now: Will the private-sector initiatives work fast enough? "There has to be visible progress this year, because the [December] presidential election will be a referendum on Aristide," says David Rothkopf, a Commerce Dept. official in charge of investment aid. But it could be months or even years before repairs start on Haiti's antiquated phone system and congested ports. The slow pace at which the Aristide government is moving to privatize state assets also has chilled the business climate.

Cash infusions would quickly restore thousands of stable jobs in plants that once supplied U.S. apparel and sporting-goods companies. But those U.S. businesses that suffered most from the embargo probably won't qualify for OPIC guarantees. OPIC can legally underwrite only 75% of any loan, and banks are reluctant to assume the balance of the risk for financially shaky companies.

Despite the obstacles, some companies are optimistic about opportunities. There won't be megadeals, but for the struggling Caribbean nation, a few modest investments will go a long way.

By Amy Borrus in Washington, with Peter Valdes-Dapena in Miami

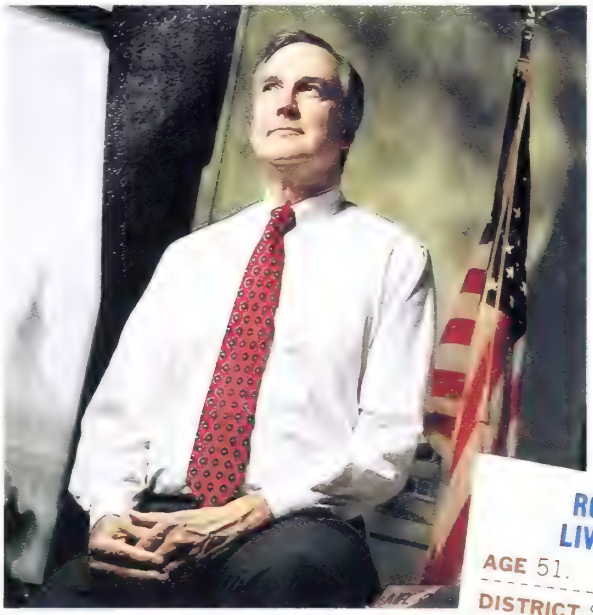
RON HAVIV/SABA

PEOPLE

BOB LIVINGSTON: THE MAN WHO MUST SAY NO

But can he make the massive cuts the GOP needs?

In the wee hours of Feb. 23, members of a House Appropriations subcommittee huddled in a Capitol Hill conference room. As they munched on popcorn and chocolate chip cookies, the 13 lawmakers chopped $5.9 billion in federal spending—including money for job training programs and heating assistance for the poor.



At the center of the action was Representative Robert L. Livingston (R-La.). The former criminal prosecutor was handpicked by House Speaker Newt Gingrich (R-Ga.) to carry out the GOP's assault on government spending. Livingston, chosen to run the appropriations panel ahead of four more senior lawmakers, now controls $550 billion—a third of the federal budget.

HEARTLESS SLASHER? Gingrich selected the unwavering conservative for his steadfast loyalty, and Livingston has been true to the GOP cause. Running Appropriations once was the plum assignment on Capitol Hill because it meant sending billions of dollars' worth of pork home. But not under Livingston, whose job is to cut the flow of goodies and spearhead the massive cuts the GOP needs to finance its twin promises of tax breaks and a balanced budget by 2002. He relishes the role: "I'm having a ball. For 17 years, I was in the minority. Now, I'm calling the tune."

Livingston doesn't even seem to mind getting squeezed from all sides. Liberals label him a heartless slasher. "He's going after the weakest claimants, not the weakest claims," charges Richard Kogan, senior fellow at the Center on Budget & Policy Priorities in Washington. His GOP colleagues want to chop programs—but not their favorites. Example: Livingston couldn't stop Representative Jim Bunn (R-Ore.) from saving a $6.5 million visitors' center in Bunn's district. And some budget hawks are never satisfied. Grumbles freshman Roger Wicker (R-Miss.): "They could have squeezed a little more."

Right now, the courtly Livingston faces a nasty fight with another GOP lord, Budget Committee Chairman John R. Kasich (R-Ohio). The battle is over where to find the $1.5 trillion over the next seven years to pay for GOP promises. Kasich wants Livingston to find more savings from the spending controlled by Appropriations, which includes all discretionary spending—everything but entitlements. Otherwise, the Republicans will have to cut deeper into popular programs such as Medicare.

Livingston's clout comes from Gingrich, who keeps a tight hold on the committee. When the Speaker assigned members, "he told us, 'If you aren't willing to make the cuts, maybe you should be on another committee,'" recalls Representative Barbara F. Vucanovich (R-Nev.). At one key meeting, Livingston's staff director was joined by an aide to House Majority Leader Richard K. Armey (R-Tex.) who kept in touch with the GOP elite via cellular phone. "That never happened on this committee before," says a longtime staffer.

Livingston has kept up his part of the bargain. To date, he has found $17 billion in cuts from 1995 spending. About $7.3 billion will pay for unbudgeted costs of recent U.S. military missions in Haiti and Somalia, along with aid to victims of natural disasters in the U.S. The remaining $10 billion is a downpayment on the $200 billion needed to pay for tax cuts promised by the GOP's Contract With America. The full House will take up the spending bill in early March.

"BAD MISSION." So far, though, Livingston has made the easy cuts—the Democrats' favorite programs. The Center on Budget & Policy Priorities estimates spending on the poor accounted for $10 billion, or 63%, of the cuts even though poverty programs make up only 12% of panel's total spending. "He's a good man on a bad mission," says Representative David R. Obey (D-Wis.), the committee's ranking Democrat.

Livingston's real test will come as he takes on the mind-numbing task of finding $65 billion to $10 billion a year in savings for the next seven years. That means going after GOP sacred cows, such as export promotion and highway grants, and being willing to deny pork to the Bayou State. "There's no doubt that will have to come to pass," he concedes.

Sitting in a spacious office, steps from the House floor, Livingston remains on course. "I have my job to bring down appropriations. That's what I'm going to do," he says. The former Navy man has spent years training for this mission: singing government programs kept afloat for decades by the Democrats. If he succeeds, he'll have the grudging respect of his GOP colleagues. But unlike past Appropriations chairmen, he won't win many friends.

By Mary Beth Regan and Howard Gleckman in Washington

ROBERT L. LIVINGSTON

AGE 51.

DISTRICT Suburban New Orleans.

CONGRESS Elected in August, 1977. Spent nearly 18 years in the trenches on defense and foreign operations appropriations.

BACKGROUND Father abandoned family. Grew up in a middle-class New Orleans neighborhood, working his way through school on the night shift at a steel assembly plant. Joined the Navy after a year of college.

EDUCATION Undergraduate and law school at Tulane University.

HOBBIES Fishing, golfing.

FAVORITE BOOK *Atlas Shrugged* by Ayn Rand.

WITH CHINA'S WU YI: *"We understand each other. I'm a fighter, too"*

RADE

SHE'S GOT STEEL N HER SPINE'

harlene Barshefsky's China coup may put her career in orbit

Nobody calls Charlene Barshefsky "Stonewall" anymore. Colleagues coined the nickname for the tena- us deputy U. S. Trade Representa- e during the 1993-94 U. S.-Japan trade ks. Barshefsky played along. But she ld see that a stone wall was just at the talks were about to crash into. e bold initiative ended with a whim- last October, and the high-flying de hawk almost quit from frustra- n, friends say.

But Barshefsky is soaring once more. e reason: her lead role in crafting Feb. 26 trade agreement with China ed at ending rampant piracy of U. S. vies, compact disks, and computer tware. The last-minute deal, which rted a costly trade war with the an giant, calls for a crackdown on yright violations in China, expands rch-and-destroy powers of Chinese toms agents, and ends quotas on im- ts of films and other U. S. goods.

JOR COUP." U. S. industry is gleeful. the first time, American companies e the prospect of entering the red-hot nese market with real assurances t they won't be ripped off. And Bar- fsky? "She's pulled off a major coup e," says Kenneth Wasch of the Soft- e Publishers Assn. "The only per- tougher than Charlene Barshefsky is mother." Adds Jack Valenti, presi- t of the Motion Picture Association of erica: "She's got steel in her spine."

Barshefsky, 44, is the first to admit that the toughest task may be yet to come: "Look, if China decides it doesn't want to enforce this agreement, there's a big problem," she says. "We must make sure every element is implemented."

And if anyone is going to be vigilant, it's Barshefsky. The daughter of Russian immigrants, she honed her negotiating skills during an 18-year stretch at one of Washington's premier law firms, Steptoe & Johnson, rising to head of the international law division. She joined the USTR's office in 1993.

RESULTS-ORIENTED A former lobbyist for foreign interests, Barshefsky proved herself a forceful trade nationalist

Some congressional critics questioned her economic patriotism because she had lobbied for foreign interests—Mexican business clients on the North American Free Trade Agreement and the Canadian softwood industry. Yet Barshefsky soon proved to be a tough trade nationalist, establishing herself as the Clinton Administration's most forceful advocate of "results-oriented" trade policy with Japan. That made her a lightning rod for a new set of critics who feared the Clintonites were lurching toward government management of free trade.

Tokyo complained that U. S. policy was being driven by a litigator with no understanding of Japan. And Japanese negotiators openly scorned Barshefsky's hard-charging style. "Things got too personal," says one insider.

When the talks broke down in February, 1994, and the markets panicked over the possibility of a trade skirmish, the Administration panicked, too. W. Bowman Cutter, the trade maven at the National Economic Council, tried to undercut Barshefsky by seeking face-saving deals. Other U. S. agencies bailed out. The talks finally fizzled out last October, and festering trade problems with Japan were put on the back burner.

Although she denies it, Barshefsky privately mulled quitting, intimates say. U. S. Trade Representative Mickey Kantor, riled by Cutter's meddling, promoted her to be his principal deputy this past January. But he also took the Japan portfolio away from her.

Instead of sulking, Barshefsky learned from her Japan ordeal to prepare for China. "She can be abrupt, but she's creative, and she's a top-notch lawyer," says former deputy USTR Rufus H. Yerxa. Barshefsky summoned groups industry by industry to USTR last fall. "She asked us, 'What do you want from the talks with China?'" says Robert Holleyman of the Business Software Alliance. "She listened. And then she delivered."

WIGGLE ROOM. Once faulted for being too rigid, Barshefsky left wiggle room in the agreement for China's future entry into the World Trade Organization. And she found a soul mate on the other side—Wu Yi, China's blunt Trade Minister. "We understand each other," Barshefsky smiles. "I'm a fighter, too."

Inside the Administration, Barshefsky has become tight with other powerful women: Joan E. Spero, Under Secretary of State for economic affairs, and Laura D'Andrea Tyson, new head of the National Economic Council. "Being women in a male preserve, they bonded quickly," says a Clinton insider.

With key supporters such as Spero and Tyson, Barshefsky may soar even higher. With Kantor rumored to be moving to Clinton's reelection campaign soon, she may be in line for the top USTR post. Sometimes, tenacity pays off.

By Douglas Harbrecht in Washington, with Amy Borrus

HOLLYWOOD

FOR THESE BABY BELLS, A RINGER NAMED STRINGER

Can the media whiz pull off a tricky assault on cable TV?

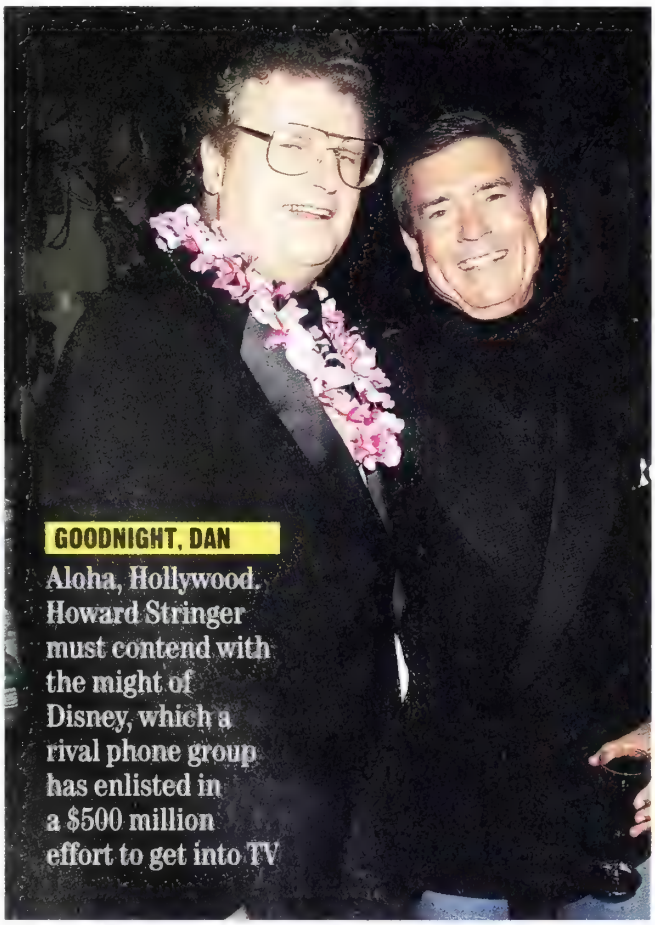
Stuart C. Johnson, CEO of Bell Atlantic Video Services, has a dreamy way of talking about the TV joint venture that his company has formed with fellow Baby Bells Nynex Corp. and Pacific Telesis Group. The venture promises "a new form, almost a new dimension—a fourth dimension—of entertainment and programming," he says. "It allows you to customize programming to your individual needs."

Such musing is a long way from the harsh cost-cutting rubric of Chairman Laurence A. Tisch's CBS Inc. But it must offer cold comfort to Howard Stringer, who on Feb. 24 bolted from the helm of the CBS Broadcast Group to head up the Baby Bell joint venture. Stringer, 53, now is responsible for making the Baby Bells' dreams come true. And if the savvy, affable Welshman thinks fighting against NBC's Thursday night lineup was tough, he hasn't seen anything yet.

Stringer, one of the most highly respected programmers in television, has been given $300 million in startup funds to steal customers from cable systems and direct-broadcast satellite companies. Within weeks, Walt Disney Co. is expected to announce a similar deal with three other Baby Bells to form a company that will spend an estimated $500 million to get into the TV business. Stringer and Disney most certainly lend credibility to the Baby Bells' efforts. But cut through the hype, and the telcos still face a steep, uphill battle.

LAST IN LINE. Stringer, who was wooed by superagent Michael S. Ovitz, an adviser to the joint venture, says he'll begin by assembling a system similar to that of the typical cable company: Viewers will be offered the networks, MTV, Cable News Network, and the laundry list of other channels. The telcos will buy rights to films from Hollywood, just as the movie channels do.

The distinguishing factor will be interactive services. Using their switching capabilities and a state-of-the-art navigator to guide viewers through the thicket of channels, the telcos will try to wow customers with online banking, games, shopping, and video on demand. Further down the road: the ability to customize the flow of information. Gushes Lee G. Camp III, CEO of Pacific Telesis Enhanced Services: "We're inventing the future."



GOODNIGHT, DAN

Aloha, Hollywood. Howard Stringer must contend with the might of Disney, which a rival phone group has enlisted in a $500 million effort to get into TV

The trouble is, so is everybody else. Cable systems, which already feed signals to 62% of the country, are racing to upgrade in order to provide both phone service and interactive programming. They have ambitious tests running in such places as Orlando. Rollout is hampered by the cost of the settop box and other technology. But the Baby Bells face similar hurdles. Before PacTel can offer video of any sort on a commercia scale, for instance, it must spend $1 billion by 2001 just to upgrade wiring.

If banking on interactive services as differentiator is risky, finding distinc tive TV fare is expensive. Stringer ac mits that the Bells likely will need t bid on sports events and made-for-T movies. They may also have to star their own cable channels. That adds u Before Turner Broadcasting System In could launch its TBS channel, for exam ple, it had to spend $1 billion for a l brary of films to show on it.

CAUTIONARY TALES. Then there's th Fox Inc.'s television network—a muc smaller venture than what the telco have in mind. It lost more than $10 million in its first year alon and took five years to sho profits. Moreover, despite d veloping hits such as *Th Simpsons* and *America's Mo Wanted*, Fox didn't make th big time until it spent $1.6 bi lion to acquire rights to N tional Football League game Stringer insists "we're not g ing to spend heavily. We' mindful of the Japanese exper ence (of overspending in Holl wood), and we're not going repeat that." But absent ma sive spending, how will he cr ate a service distinctive enoug to have any drawing power?

The reason Ted Turner reported to be chasing aft CBS is simple: Even at a pri approaching $5 billion, it's bargain compared with startin fresh. Networks—with strong brand identity a hard-won audiences—tod command almost 70% of vie ership. Cable systems, course, carry the networks, b in order to sell their more l crative services, they have slug it out for the remainin 30%. It's a market alread crowded with such power brands as CNN and HBO.

So why not just run high-power wires into the home and carry pro ucts from the existing galaxy of pr grammers? The telcos are afraid th new I-way wires might get left out the cold. "Yes, it's expensive, but it's surance for a bigger investment," sa PacTel's Camp. Stringer's challenge is keep insurance from turning into liability.

By Ronald Grover in Los Angel and Michael Oneal in New York, w bureau reports

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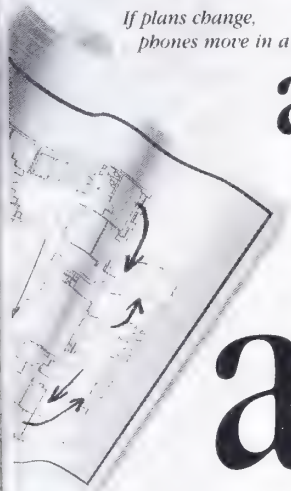

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STRATEGIES

FARRAKHAN'S THREE-YEAR PLAN

His new business strategy goes far beyond glitzy eateries

NOURISHING: *Salaam restaurant will provide jobs on Chicago's South Side*

Down in tiny Dawson, Ga. (pop. 6,000), folks aren't used to outsiders strolling around with bodyguards in tow. But late last November, a dapper, citified man flanked by three bodyguards and a team of lawyers showed up in the town once known as "The Spanish Peanut Capital of the World." Hardly a social call, and this visitor didn't make much small talk. Instead, he plunked down $1.4 million for 1,600 acres of farmland and quickly whisked himself away.

Bubba, meet Louis Farrakhan. After years of sermonizing about the virtues of self-help, the controversial Nation of Islam chief is broadening his economic empowerment platform.

HEALTH CONSCIOUS. In late February, Minister Farrakhan announced that the Nation of Islam, already proud owners of some 2,000 acres of Georgia and Michigan farmland, is in the market for at least 8,000 more acres by yearend. The goal: to create a for-profit employment base that will provide produce, meat—no pork, of course—and dairy products for supermarkets in distressed inner-city neighborhoods. "We must stop depending on others to do for us what we could, what we should, and what we must do for ourselves," Farrakhan said at a press conference.

But Farrakhan isn't shedding his trademark bow tie for overalls. Agriculture is just a small component of his Chicago-based ministry's ambitious three-year business strategy (table). On Feb. 28, he officially opened Salaam, a glitzy $5 million restaurant on Chicago's South Side. And tapping the pockets of the Nation's estimated 100,000 members as well as private African-American investors, Farrakhan plans to open more restaurants, build a performing arts center, launch a trucking company to move the Nation's farm produce as well as transport goods for other companies, and expand the group's media company, which includes the organization's flagship biweekly newspaper, *The Final Call*. The organization is even marketing a $20 health video.

FARRAKHAN ON OPENING NIGHT

The Nation's goal is to help spur entrepreneurship and self-sufficiency within the black community. "We don't plan just to help Muslims," says James Muhammad, editor of *The Final Call*, a newspaper that boasts a circulation of 600,000 and aspires to 1 million. "We want to provide job opportunities for all of our people."

Farrakhan, widely criticized as a racist demagogue for his fiery pronouncements against whites and Jews, may be America's most strident proponent of bootstrap economics. A contrast to many black political and religious leaders who aim their criticisms at Washington policies, the former calypso singer was schooled by Nation of Isla founder Elijah Muhammad who, amor other things, drilled self-sufficiency in his followers.

FARMING 101. Closely held and secr tive, the Nation of Islam won't discu its finances or the details of its plans, e cept to say that Farrakhan plans to rai $10 million this year from Muslims, co munity groups, and sympathetic indivi uals. Call the Nation's headquarters a you'll likely hear a recorded messa requesting contributions for the Natio farm business, which "still needs to rai money for livestock and farming equi ment." If necessary, the Nation says, will turn to banks for funding. But t bulk of the money, as southern regio director Jamil Muhammad puts it, "w come from the nickels, dimes, and dolla of the humble members of the Nation Islam."

Farrakhan and his brethren alrea are learning some sobering lesso about farming. The organization h been eager to plant acres of collard gree spinach, onions, a squash since acquiri the Georgia proper last fall. "But th haven't been able to g into the field," explai Dawson's mayor, Ro ert Albritten. "Eve week, it's been noth but rain." It could be while before the see of entrepreneursh take root.

By Ron Stodghill in Chicago, with Ma Mallory in Atlanta

WEALTH OF A NATION

AGRICULTURE The Nation of Islam owns 2,000 acres of farmland in Georgia and Michigan and has plans to acquire 8,000 more.

MEDIA The Nation has a biweekly newspaper, *The Final Call*. It also markets books and tapes and plans to build a television production studio.

PERFORMING ARTS Later this year, the Nation plans to break ground on a 2,000-seat auditorium.

RESTAURANTS & RETAILING In addition to the $5 million Salaam restaurant in Chicago, it plans to launch outlets in four U.S. cities. The Nation also owns POWER, a health-supplies company.

TRUCKING The Nation owns three trucks and wants seven more.

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STILL MESSIN' WITH BILL

Microsoft faces a new round of antitrust accusations

Bill Gates is back on the defensive. When U.S. District Court Judge Stanley Sporkin rejected the consent decree negotiated by the Justice Dept. and the software giant, he set off a frenzy of renewed criticism among Microsoft Corp. rivals. Once again, competitors are talking antitrust. "There are certainly grounds for an antitrust suit," says Novell Inc. CEO Robert J. Frankenberg. "The question is whether that is the best way to spend our energy."

So far, none of Microsoft's critics have taken formal action. But both Novell and ASCII Group Inc., which buys for independent computer dealers, confirm they have been approached by attorneys proposing civil antitrust suits against Microsoft. Sources close to Apple Computer Inc. say it has been asked to join, too. Gates isn't happy about the buzz. Justice and the Federal Trade Commission have already gone through "every possible piece of mud that anybody could come up with against us," Microsoft's CEO says.

GATES: *"We don't have an enemies list"*

For now, Gates's most public fight is with Apple, which in February fired off a letter to Sporkin complaining about Microsoft. In his angry response, Gates accused Apple CEO Michael Spindler of duplicity. Apple claims it can't get early versions of Microsoft's Windows, which it needs to make the Macintosh more compatible with Windows. Gates retorts that Apple won't give Microsoft early ve sions of its Mac programs, eve though Apple provides them to oth er software makers. He also blast charges that Microsoft is vengefu toward foes as "an absolute lie. W don't have an enemies list."

STINGY RIVALS? Maybe not, but th company doesn't lack for angry r vals. Novell, IBM, Sun Microsystem and Taligent all echo Apple's com plaint that Microsoft is slow to shar new versions of Windows, thoug most companies' executives won't b quoted saying so. Each of them ma kets competing operating-syste software. "There is no doubt Micr soft is out to kill us," says Novell Frankenberg. "This is not paranoi They really are out to get us." M crosoft executives counter that the rivals all are stingy about sharing info mation with Microsoft.

For now, Gates says he's content to l the federal courts finish their review Sporkin's ruling. He's confident Micr soft will be absolved and refuses to co cede that his tactics need to chang "This is a fiercely competitive business Gates says. Rivals may have him on th defensive, but Gates isn't backing dow

By Richard Brandt, with Kath Rebello, in San Francisco

DEMOGRAPHICS

WELFARE SURPRISES

The Census says recipients aren't who you think

Are welfare mothers promiscuous teenagers who have babies to get on the dole? Or are they down-on-their-luck women who need a temporary helping hand? Washington's fierce battle over welfare reform may turn on which view is more accurate. Now, the Census Bureau has weighed in with its first-ever study of recipients of Aid to Families with Dependent Children (AFDC)—and it turns out neither stereotype is entirely accurate.

The Census report, which is due to be released on Mar. 3, shows that unwed mothers under the age of 18, the prime targets of GOP reformers, make up a tiny slice of the welfare population. In the summer of 1993, when Census did its survey, only 32,000 of the 3.8 million AFDC mothers were 17 or under and unmarried. Their average age was 30, and 53% are—or had been—married. That suggests that the House GOP plan, denying benefits to unwed mothers until they turn 18, wouldn't save much money.

The new data support Democrats' claims that many AFDC recipients could reverse their fortunes with some help. A majority have a basic education: 38% have finished high school, and another 19% spent at least one year at college. Moreover, 15% of AFDC mothers are still pursuing education. AFDC recipient Alicia M. Straub, 24, will graduate this year from the University of Washington with a degree in sociology—even though she was abandoned by the father of her son, Devin, 2. "I see a big future in front of me," she says.

Still, the Census study offers ammunition for welfare hardliners as well. AFDC recipients on average have more children than nonwelfare mothers—2.6 vs. 2.1. And those on the do are twice as likely to have borne the first child as a teen—29% against 15 Early childbearing poses a thorny pro lem for reformers, because other studi have shown that the younger a woma is when she gets on welfare, the mo difficult it is for her to leave the rolls

REFUTING A MYTH
Alicia Straub, a welfare mother, is a student at the University of Washington

Will cutting off benefits prevent tho early births? Republicans argue th welfare offers teens cash incentive to b come mothers. Th Census report doesn settle the question, b it offers an intriguin hint: Some states wi the highest benefit such as California, ha the lowest birth rat for unwed teens, whi House Speaker Nev Gingrich's Georgia—o of the stingiest states has one of the highe pregnancy rates f such youngsters. Mo ey apparently isn't t lure Newt thinks it i

By Christina D Valle and Mike M Namee in Washingto

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EDITED BY THANE PETERSON

A RISKY MOVE FOR HOECHST

YOU GOTTA GIVE JURGEN DORmann credit: He's not afraid to make big moves. On Feb. 28, the CEO of German drug and chemical giant Hoechst announced that he is willing to pay $25.75 a share, or about $7.2 billion, for Marion Merrell Dow, the troubled drugmaker Dow Chemical has been trying to unload. The move takes chutzpah: Analysts chided Hoechst for overpaying in 1993 for 51% of generic drugmaker Copley Pharmaceutical, which now is mired in lawsuits over an allegedly tainted asthma drug. Hoechst put down $55 per share for its stake; Copley now trades at about $18. Standard & Poor's put Hoechst on a credit watch "with negative implications" because of worries about how Dormann will finance Hoechst's latest bid.

THE EU MAY NIX THAT SPRINT DEAL

IS SPRINT'S BIG GLOBAL TELEcom alliance in trouble? As part of an effort to force France and Germany to open their telephone markets, European Union officials have told BUSINESS WEEK that they may nix a bid by France Telecom and Deutsche Telekom to buy 20% of Sprint for $4.2 billion. The officials say the EU plans soon to announce that a joint venture between France Telecom and Deutsche Telekom, which was meant to become the core of the Sprint alliance, will not be allowed to use the phone companies' existing infrastructures. The Sprint alliance will only get access to the phone networks once France and Germany allow rivals to operate networks, too.

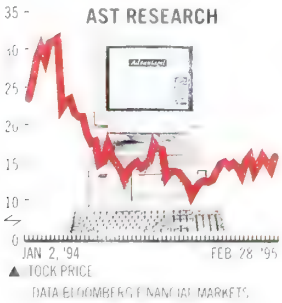
GRAND TOUR FOR AMERICA ONLINE

CALL IT EOL. GERMANY'S BERtelsmann, the world's second-largest media group, is plunking down $50 million for 5% of America Online, giving AOL an indicated market value of $1 billion. The idea behind the deal: put Europe online, starting with Germany, France, and Britain, through a 50-50 joint venture using $100 million of Bertelsmann cash. The partners aim to beat Microsoft and other wannabes planning online services in Europe—while facing off against H&R Block's CompuServe, currently the biggest player in Europe. AOL's shares rose 16%, to 82¼, on the news.

CLOSING BELL

RESCUED?

Finally, a hint of relief for AST Research, the troubled PC maker. On Feb. 27, Samsung agreed to pay $378 million for a 40% stake in the company. AST's shares rose 13% on the news. But Wall Street is worried about near-term earnings dilution and has refused to value the stock anywhere near the $19.50 to $22 the Korean electronics giant is paying for most of its shares. AST, which traded above 30 early last year, was late to market with new computers last fall. It lost $62.2 million on sales of $1.1 billion in the six months ended Dec. 31. The deal should end AST's cash problems: By the time it's completed in June, AST will have received a $250 million cash infusion from Samsung.



HEADLINER: BRUCE BUSBY

HILLHAVEN'S VALLEY OF THE TAKEOVER

For a guy who nursed a sick company back to health, Bruce Busby is taking some flak. Since 1991, when he became CEO of Tacoma (Wash.)-based Hillhaven, the No. 2 U. S. nursing-home chain, Busby has lifted earnings 30-fold, to $57 million on revenues of $1.4 billion in fiscal 1994. And on Feb. 28, Busby said he will expand Hillhaven's reach by paying $120 million in stock for Indianapolis' Nationwide Care.

There's one hitch: a nasty takeover battle with Horizon Healthcare, which in January made a bid for Hillhaven. Horizon was founded by former Hillhaven president Neal Elliott. Busby nixed Elliott's bid as "inadequate," angering some shareholders who wanted to cash out.

Now, some investors see the Nationwide deal as a move by Busby to put 15% of Hillhaven's shares in friendly hands. Busby calls that "absolutely incorrect," but he faces three lawsuits over his rejection of Horizon's bid. The market figures Busby will win out, though: Hillhaven's stock is trading around $24, $4 less than Horizon's offer.

By Dori Jones Yang

FAT PRICE FOR A PUDGY GENE

DESIGNER GENES ARE GOING for a bundle. On Feb. 28, Amgen, the biotech powerhouse, won an intensely contested auction for the right to work with an obesity gene that had been identified by scientists at Rockefeller University. Amgen will pay the university $20 million up front for rights to the gene. Payments eventually could reach several times that amount if the discovery leads to the development of a successful treatment for obesity.

ZENITH DIALS UP A NEW CEO

ALBIN MOSCHNER IS TUNING in on quite a challenge. In April, Moschner, 42, will become the new chief executive officer of the last major U. S. television maker, Zenith Electronics. Jerry Pearlman, wh spent 12 rough-and-tumb years at Zenith's helm, a nounced in late Februar that he will step dow Moschner, a former IBM e gineer who joined Zenith 1991, has spearheaded a m jor factory overhaul and i provements in productivity Zenith's low-cost Mexica plants. But the company h lost money for six straig years now, and there is st plenty more cost-slashing be done.

ET CETERA . . .

- Callaway Golf won lawsu against two foreign imitato of its Big Bertha club.
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GLOBAL ECONOMY

SECOND THOUGHTS ON GOING GLOBAL

Riskier emerging markets have spooked some players –but many big companies are staying the course

If any country was the model of success in the new world economic order, Mexico was it. The country's U. S.-trained technocrats seemed to be doing everything right. They flung open Mexico's markets to free trade, rolled out the red carpet for foreign investors, privatized lumbering state companies, and beat down inflation. But since the peso's devaluation, this virtuous cycle has turned vicious. Mexico's currency and stock markets have crashed, and unemployment has soared. The North American Free Trade Agreement, the engine of hemispheric growth, has produced a dangerously weak partner for the U. S. The implication is that far from triumphing around the world, the free-market model has hit a wall.

Now, the Mexican crisis is giving rise to second thoughts about the course of the global economy. Overall, the consensus opinion among executives, portfolio managers, academics, and government officials is still encouraging. The structural foundations for free markets, such as open borders and privatization, seem to be as solid as they were before the rupture in Mexico.

NEW DEALS. But the realization is sinking in that as these markets develop, bouts of volatility will cause periodic panics. For the short term, that's bad news for the mutual funds and investment houses that have piled into the immature financial markets of the developing world. More conflicts will erupt between the Finance Ministers in these countries and the investors of this so-called hot money, which seeks out the best returns and shuns the biggest risks. Countries such as Mexico, which despite its progress grew dangerously addicted to short-term borrowings, will be eventually punished by the markets for their profligacy. Governments in Asia are moving to protect themselves by erecting hurdles to curb the flow of hot money. Even in Western Europe, some opponents of the new order may try to blunt the power of bond investors who are assailing the welfare state's costs.

In this turbulent atmosphere, the initiative could pass to the other source of foreign capital in emerging markets—the multinational corporations, which control hundreds of billions in assets and have growing operational expertise in far-flung markets. For now, executives at these companies seem optimistic about global opportunities, peso devaluation or no. To these giants, says Robert E. Donovan, executive vice-president of ABB Asea Brown Boveri Ltd., the giant engineering concern: "[Mexico] is just a bump in the road."

Well, maybe. Some of these companies may have invested so heavily in emerging markets that they are locked in to a long term view. Yet as mutual-fund money flees homeward, it's likely multinationals' patient capital will look even more valuable to governments intent on development. China's recent concessions on intellectual-property rights, which favor such companies as Microsoft Corp. and Time Warner Inc., also enhances corporate clout.

So even while the Mexican crisis smolders, chief executives are searching out more deals. In recent days, Anheuser-Busch Cos. signed a pact to buy 80% of a big brewery in Wuhan, China, while Motorola Inc. announced new deals in China, including a $28 million joint venture to make semiconductors in Sichuan province.

To the Germans, who have invested billions in central Europe since the fall of the Berlin Wall, the Mexican crisis seems very far away. "We invest in real factories there, not in bonds," says Gerhard Seufert, head of the Central European division of the Economic Ministry. Companies from Daimler Benz to Siemens to the big utilities are operating in Poland, Hungary, and the Czech Republic.

JITTERY
The Buenos Aires *bolsa* frets over devaluation

n Latin America, the region most ken by Mexico's devaluation, Volksgen has revealed plans to invest over 5 billion in Brazil. And GM Hughes ctronics Corp. decided to expand its ellite-TV service throughout the ion.

Even in Mexico, many companies still the country's value as an exporter and, later, as a consumer market in. A Matsushita Electric Industrial division is building a cadmium-nickbattery plant in Tijuana. Chrysler p., which manufactures both for ext and domestic consumption in Mexwants to convince more of its suppli that now is exactly the right time to est there, according to President bert A. Lutz.

But Lutz is taking the long view, since conditions in Mexico are getting tougher. Sales of Chrysler vehicles are down 40% in the first two months of the year. Recession is stalking Argentina, too, in the wake of the Mexican crisis. To convince foreign bondholders that a Mexican-style devaluation is not imminent, the Argentine government is searching for major cuts in spending.

In this tense atmosphere, portfolio managers wonder where trouble will strike next. Pakistan and the Philippines, for example, have accumulated large current-account deficits. Thailand, which has issued a lot of short-term debt, had to stop a run on its currency as foreign investors beat a temporary retreat. Declares Alan J. Stoga, managing director of consultants Kissinger Associates Inc.: "We know that there will be other Mexicos."

DELHI DEALS
Multinationals are still pouring capital into India

On Western Europe's doorstep, Hungary's festering budget problems illustrate the strain of passing from a communist welfare state to something resembling capitalism. Hungary's current-account deficit of $3.7 billion and overall foreign debt of $28 billion are danger signs in such a small economy. A ministerial crisis over privatization has also caused jitters. Yet here the pressures of outside investors have seemed to prevail: The government has recommitted itself to rapid privatization and more austerity.

NO RUSH. The greatest beneficiaries of the new investment mood for now may be Asia's proponents of the Japanese model of slow, controlled development. Japanese financiers already say that Mexican events have repudiated the go-fast approach of the "Berkeley mafia," the free-market purists who have been advising many Asian governments. "We think a gradual approach is better than rushing," says Shinichiro Kobayashi, a senior manager at Bank of Tokyo who spent 19 years in Latin America. "You have to consider each country's strength and [economic] maturity."

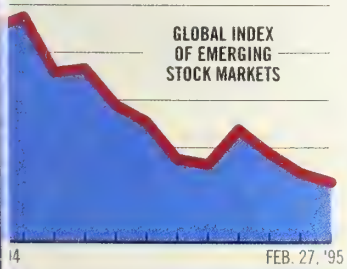
More countries may well adopt versions of the Asian model to avoid Mexico's fate. William Ebsworth of Fidelity Investments in Hong Kong recently visited India to check out equity investments there. But he was surprised to find the Indians now frowning on portfolio investment. Direct foreign investment is fine, but there is talk of India reducing the shares foreigners may hold in a domestic company to 10% from 24%. In China, government officials are concerned that hot money is adding to the country's inflationary woes. So regulators in Beijing have brought to a near halt foreigners' purchase of stock issues.

By exposing the weak underpinnings of global development, the Mexican crisis has given everyone its first look at how risky the new world really is. The next job for the architects of the global financial order is to build in restraints and early-warning systems that will encourage growth without letting it get out of control. It's an urgent mission that nations will ignore at their peril.

By Christopher Power, with Rose Brady in New York, Joyce Barnathan in Hong Kong, Karen Lowry Miller in Bonn, and bureau reports

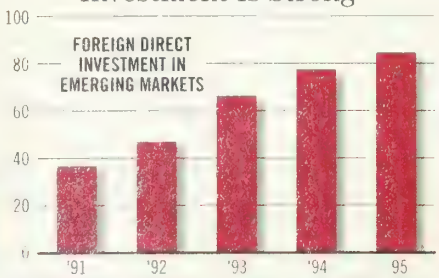
Emerging Markets

Their Stocks Are Battered...



GS SECURITIES INC., WORLB BANK, BUSINESS WEEK

...But Direct Investment Is Strong



COMMENTARY

By Karen Pennar

GLOBALISM? MOST INVESTORS SAY, 'NO THANKS'

This is, the headlines scream at us, the age of free markets and global capitalism. Every day, billions of dollars buzz across borders. Tons of goods traverse oceans. People pick up stakes and move clear across continents. Today, we are all citizens of the world.

Not quite. For all the fuss about globalization, a strong streak of provincialism pervades our lives. Indeed, what economists call a "home bias" characterizes many economic decisions—and not just among Americans.

Call it the devil-you-know phenomenon. For whatever reason—caution, familiarity, or convention—people seem to want to stick close to home. Mexico's economic crisis and the toppling of Britain's oldest merchant bank, thanks to outsize derivatives trades in Singapore that went bad, will only reinforce home biases.

NO COMMITMENT. Investors have engaged in a lot of "financial tourism" in recent years, following one another to trendy foreign-investment hot spots such as Mexico, observes Neal M. Soss of Soss & Cotton Enterprises LP, a New York financial consulting firm. Then, when trouble strikes, the financial tourists pack their bags and head back home. Says Soss: "People don't have the depth of commitment to foreign markets that they have to home markets."

Over the past 15 years or so, U.S. purchases of foreign stock have grown at an impressive 22% annual compound rate, according to figures from the Securities Industry Assn. Even so, foreign equities amount to only 6% of the total equity holdings of American investors—this at a time when the capitalization of non-U.S. equity markets has grown to 63.6% of total global market capitalization, according to data from Morgan Stanley Capital International.

Even though finance theory—and experience—teach that diversification lowers risk, diversification into foreign securities clearly remains a novelty for many U.S. investors. Home bias is best explained, says economist James M. Poterba of the Massachusetts Institute of Technology, by investors' desire to invest in what makes them feel "comfortable," or in what they know about most or have the best information about—even if this may concentrate, rather than spread, their risk. "We've seen a slow inching toward more global portfolios over the past couple of decades," explains Ingrid M. Werner, an economist at Stanford University's Graduate School of Business, "but there is a long learning process."

When it comes to risking their money, investors prefer to stay close to home

By the same token, a home bias or close-to-home bias shows up in global trade. Studies show that proximity between nations is a key determinant of trade and plays a much greater role than transportation costs warrant, says Paul Krugman, economist at Stanford University. Thus, France is Germany's single largest trading partner and vice versa. Similarly, the U.S. trades more with Canada than with any other country.

Still, that trade might be much greater than it is. A study by John McCallum, chief economist at Royal Bank of Canada, found that interprovincial trade in Canada exceeds the trade that goes on between Canadian provinces and U.S. states—even after holding factors such as size and distance constant—by a factor of more than 20.

REBOUND EFFECT. Even migration patterns, despite the apparent upsurge in migration in recent years, may be affected by the pull of home bias. Researchers Riccardo Faini of the University of Brescia and Alessandra Venturini of the University of Bergamo in Italy discovered that while emigration from poor countries initially rises as income grows, it begins to fall once an income threshold of about $4,000 (in 1985 dollars) is crossed. Then, the researchers say, a home-bias effect begins taking over.

Many barriers to the movement of people across borders still exist, of course, while barriers to the movement of capital and goods have fallen rapidly over the past couple of decades. Nonetheless, home continues to look like a safe place, especially now with the U.S. stock market up 6% so far this year and with emerging markets under a cloud. But over the long haul, the payoff for investors—as well as for trading nations—will come from looking beyond their own borders.

Pennar is a senior writer in economics.

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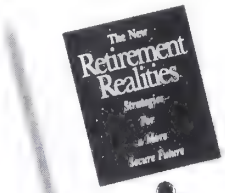

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CAR BUILDUP: GM SAYS IT WILL INVEST $2 BILLION

RAZIL

T'S CARNIVAL TIME 'OR INVESTORS

ultinationals are betting big on growth in Brazil

s skittish portfolio investors continue to pull money out of Latin America's gyrating money markets, countertrend is showing up. In Brazil, me of the world's biggest companies e pouring billions of dollars into direct vestments. Hard-nosed corporate planrs in industries from autos to beer lieve the upsurge under way in the gion's biggest economy won't be opped by financial jitters.

On Feb. 21, General Motors Corp. nounced a $2 billion, four-year investent to boost its Brazilian production pacity. The buildup is "indisputable oof of our confidence in this country," id José Carlos Pinheiro Neto, corpote affairs director at General otors do Brasil.

Two days later, Volkswagen pped GM: It unveiled plans to vest $2.5 billion by 1999 to uble its Brazilian output, to 1 llion vehicles per year, and ake Brazil its center for worldde truck production.

LL THE RIGHT MOVES." What's urring the wide-ranging investents (chart) is the economic reund stemming from Brazil's e-market reforms. Last year, oss domestic product grew %, up from 4.2% in 1993, stimated by the Real Plan. The n, a mix of fiscal measures d a new currency, the real, braked inflation from more than 40% per month last June to just 1% now. This year, forecasters expect growth of around 5%.

Rising consumption is the attraction for St. Louis brewer Anheuser-Busch Cos. On Feb. 22, it laid out $105 million for a 10% stake in Antarctica Paulista, Brazil's leading brewer, with an option to buy 30%. Brazil appears to making "all the right moves," says Jack H. Purnell, chairman of Anheuser-Busch International Inc.

Nevertheless, President Fernando Henrique Cardoso must still push additional reforms through Congress. These range from revamping the bankrupt social security system to opening industries such as telecommunications and electric power to private investment.

Portfolio investors are also uneasy about the overvalued real, currently worth about $1.18. On the plus side, the strong currency is holding down inflation by pulling in cheap imports. But it is also eroding Brazil's traditional trade surplus, which dipped into deficit in recent months. To avoid Mexico's fate, Cardoso has moved to curb the deficit by hiking auto-import duties, stepping up export financing, and tightening consumer credit.

PIPES AND MOTORS. Up to now, Brazilian companies have been cautious about investing. But late last month, Tubos e Conexões Tigre, the top maker of pipes and joints, said it would spend $80 million to increase production, while electric-motor manufacturer Weg Motores unveiled a $70 million expansion plan.

The new investments should give a boost to Brazil's productivity and trade balance. Take Procter & Gamble do Brasil. President Fernando Aguirre says P&G's new plant near São Paulo, in which it may invest $80 million over three years, will give it "an efficient, state-of-the-art facility."

For AT&T's computer division, a $6 million outlay in January for an 83% stake in computer maker Monydata is a foothold in an emerging market. "It is not a question of whether to invest in Brazil," says Fabio Steinberg, AT&T spokesman in Brazil. "It's a must." If Brazil's recovery continues, many companies are likely to feel that need, even as the financial markets continue to jiggle.

By Ian Katz in São Paulo

The Heavy Hitters That Are High on Brazil

COMPANY	TYPE OF INVESTMENT	AMOUNT MILLIONS
VOLKSWAGEN	Auto making-expansion	$2,500
GENERAL MOTORS	Auto making-expansion	2,000
ANHEUSER-BUSCH	Purchase of 10% share in brewery	105
PROCTER & GAMBLE	Health, paper, and beauty products-expansion	80
AT&T	Purchase of 83% share in PC manufacturer	6

DATA: COMPANY REPORTS

His business was saved by a satellite.

Scott Young's livelihood depends on the weather. And on a polar orbiting weather satellite called NOAA-14.

Scott's the manager of some 700 acres of citrus grove in Alturas, Florida. When the temperature drops below freezing, he sprays his trees with a fine mist of 72° water. As this water freezes, it actually gives off heat, protecting his trees as well as his business.

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CHINA

THE NEXT HOT SPOT FOR M&A: SHANGHAI

The city may create a market to sell off state-owned clunkers

As China's top officials prepare for the National People's Congress on Mar. 5, all factions agree that the 110,000 state enterprises are bleeding the country dry. Nearly half of them are in the red, consuming nearly 60% of the state budget. It's largely because of the subsidies to the enterprises that urban inflation is roaring at about a 24% annual rate. And even though banks are already overburdened with bad loans to these enterprises, they have to keep the companies afloat because they employ 100 million workers.

A solution may be found in an experiment due to be launched soon in Shanghai. City officials tell BUSINESS WEEK that they will create a mergers-and-acquisitions market where assets from Shanghai-based state enterprises would be sold to the highest bidder. Having won approval from Beijing, Shanghai officials are working out the details of this new M&A exchange. If Shanghai does the job well, "this will accelerate the corporatization and privatization process," says Jonathan R. Woetzel, senior manager of McKinsey & Co. in Hong Kong.

The goal of the exchange is to dismantle money-losing enterprises with the least amount of pain. Shanghai intends to begin the pilot program with small enterprises first. Evaluators will appraise company assets, including product lines and manufacturing facilities. They will then be listed separately on a local "property exchange."

The authorities have yet to determine exactly how the workforce will be dealt with as part of the new program. But it's likely that contracts would preclude buyers from shuttering factories and laying off workers. At first, the exchange will not be open to foreigners, but there are plans to include them in the future.

HUNGRY? "We don't have situations where the big fish comes, eats the little fish, and then spits out the bad parts"

Officials at Shanghai's State-Owned Management Assets Office, established early last year, plan to announce by June how state assets will be evaluated. Shanghai may be well suited for such an experiment because it has made the most progress in social service reforms.

SHIPBUILDING

Will poorly run companies simply use the market to unload liabilities?

For instance, the city is working on alternatives that would ease the burden on state enterprises, which traditionally have been the exclusive providers of health care and education for their workers.

China now has nothing that can be called an M&A market. "We don't have situations where the big fish comes, eats the little fish, and then spits out the bad parts," says Li Shuguang, deputy director of a private consulting firm on mergers and bankruptcies in Beijing. To date, most mergers have been forced by the government, which urges a strong company to take over a faltering one. Small property exchanges do exist in rural areas. But they only involve township, collective, and private enterprises.

BLOATED. Aside from the Shanghai M&A exchange, a host of other experiments are in the offing. The central government has drawn up a list of 100 enterprises targeted for modernization. The plan is to help these companies improve management systems, streamline bloated workforces, and keep the government out of day-to-day business. There are other smaller experiments taking place in large cities across the country.

While Shanghai business leaders hope their experiment will work, others are not convinced. Poorly run businesses may use the exchange as a way to unload liabilities, says Bob Ching, Shanghai-based director of Boston Consulting Group, which advises companies on doing business in China.

Eventually, mergers and acquisitions are "inevitable if China wants to improve its industrial management," says a Hong Kong securities analyst. Since Beijing's jittery leadership is afraid to shutter enterprises for fear of massive unemployment and reluctant to privatize others for fear of losing assets to outsiders, the Shanghai experiment is about as bold a move as anyone can expect in China these days.

By Joyce Barnathan in Hong Kong with bureau reports

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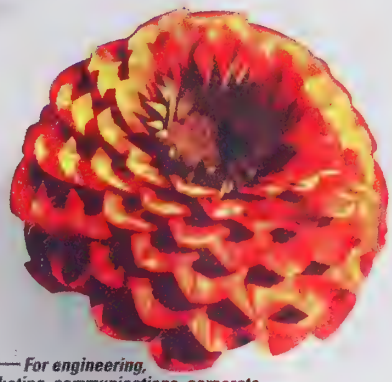

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CANADA

A CHILL WIND HITS CANADA: NEWTNOMICS

Big government is put on notice by a draconian budget

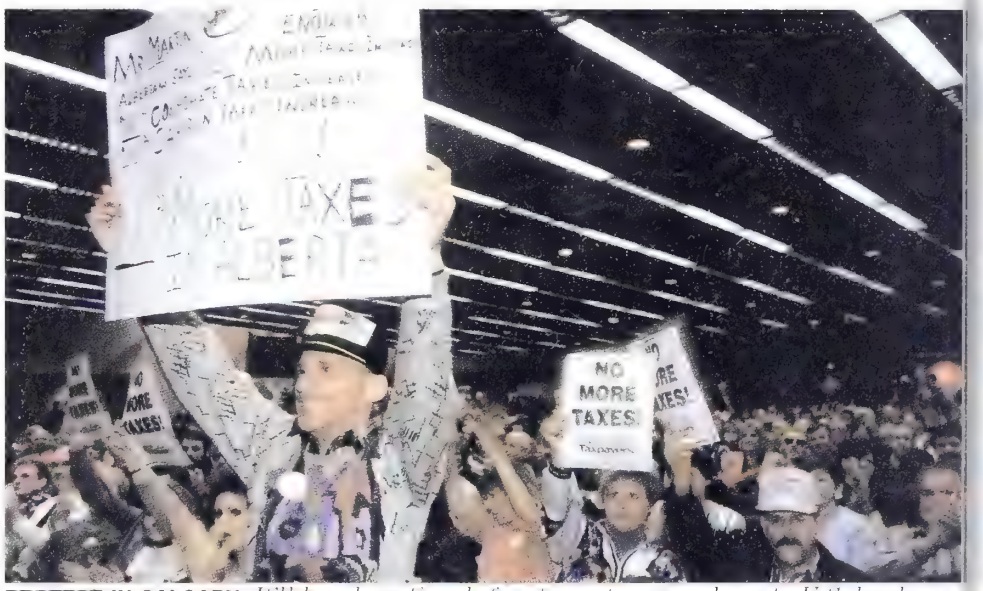
For weeks, the pressure kept building in Canada. Investors worried about massive government debt drove the Canadian dollar to a nine-year low of just above 70 U.S. cents—and dubbed it the "northern peso." Moody's Investors Service Inc. threatened to strip the country of its coveted AAA credit rating. And as the government prepared its fiscal 1996 budget, investors seemed ready to hammer the Canadian dollar even more.

But on Feb. 27, Prime Minister Jean Chrétien answered back with a vengeance. In a bold bid to rebuild international confidence, his government presented the most draconian budget Canada has seen in four decades. With a planned $18 billion in cuts over the next three years, the budget calls for reducing federal spending to 13.1% of Canada's gross domestic product—lower than at any time since 1951. Grumbles Bob White, president of the Canadian Labor Congress: "It may make Wall Street happy, but this budget sounds an awful lot like Newt Gingrich to me."

RAIL SALE. The budget marks a watershed for Canada, which has long taken pride in providing European-style social programs. And it's an abrupt about-face for Chrétien's Liberal Party, which created many of the big government programs. Spending is being slashed on everything from farm subsidies to unemployment insurance and could lead to the elimination of 45,000 government jobs. While Canada will retain its renowned nationalized health insurance, Ottawa's payments to the provinces for social programs will be cut by 12% over the next three years.

As presented by Finance Minister Paul Martin, the budget lays out a credible plan for nearly halving the budget deficit from its 1994 level, to $17.5 billion—or 3% of GDP in the fiscal year ending in March, 1997. But over the same period, net federal debt will balloon by 19%, to $434 billion, and the annual interest tab alone will soar 33%. Canada's "balance sheet has deteriorated so much, it will take years" of cuts to lower government debt, warns Brian I. Neysmith, president of Canadian Bond Rating Service, a private agency.

That was probably why the market rallied only modestly after the budget announcement. On Feb. 28, the Canadian dollar rose about one-sixth of a cent to close at 72¢, while big banks cut the prime a quarter-point, to 9.25%.



PROTEST IN CALGARY: *It'll be a long time before tax rates come down to U.S. levels*

In any event, the budget cuts signal a new era for Canadian citizens. Unemployment insurance payouts will be cut 10% on top of the 12% cut in last year's budget. Aid to dairy farmers will fall 30%, and subsidies to business will be slashed more than 60%. Furthermore, Ottawa plans to privatize the Canadian National Railway Co. and unload its 70% stake in Petro-Canada.

With foreigners now holding much of Canada's debt, "we have lost control our economy and are being forced harmonize our social programs down U.S. standards," complains Maude Ba low, head of the Council of Canadians, group against free trade. In anoth echo of the Republican revolution in th U.S., the budget makes a "major mov to transfer powers back to the provin es," says John McCallum, chief econ mist at Royal Bank of Canada. Pro inces will have far more freedom design social programs.

> Nearly everything is on the chopping block except health insurance

GREENER GRASS. In the end, though, C nadians may be getting what they a willing to pay for. Earlier this winte angry taxpayers staged rallies acro the country insisting on "no new taxes The reason: "Canadians are becomir more and more alarmed" about th growing disparity between U.S. ar Canadian taxes, explains David Perr an executive at the Canadian Tax Fou dation, a national tax research group.

Fifteen years ago, the tax burde was about equal on both sides of th border. But now, marginal income ta rates are some 25% higher in Canad So Martin resisted raising personal i come taxes—a big change from previo Canadian budgets. Instead, he impos modest hikes in gas and corporate i come taxes.

For all the anger over taxes, it w be a long time before Canada can affo to narrow its tax disparity with th U.S. Canada's debt problem is brin ing its era of a European-style soci welfare system to a gradual end. Th days of tighter budgets and tax fatig are just getting under way.

By William C. Symonds in Toron

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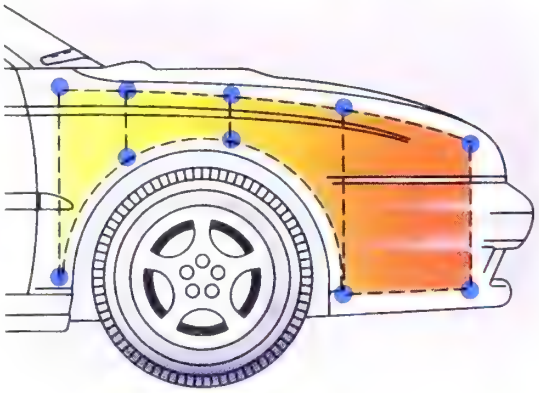
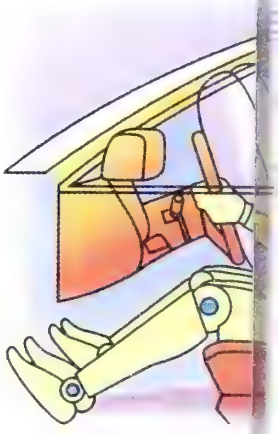


Crumple Zones



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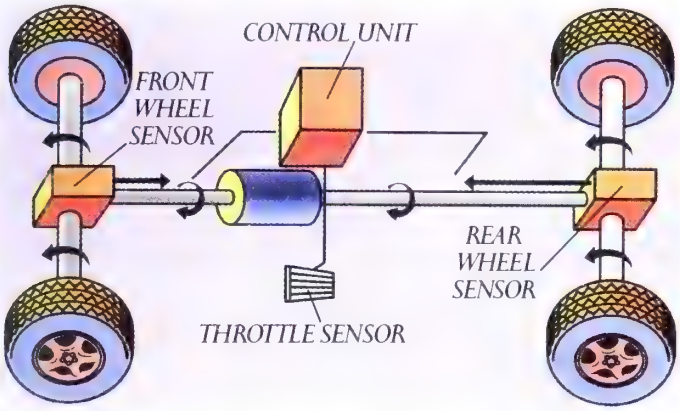

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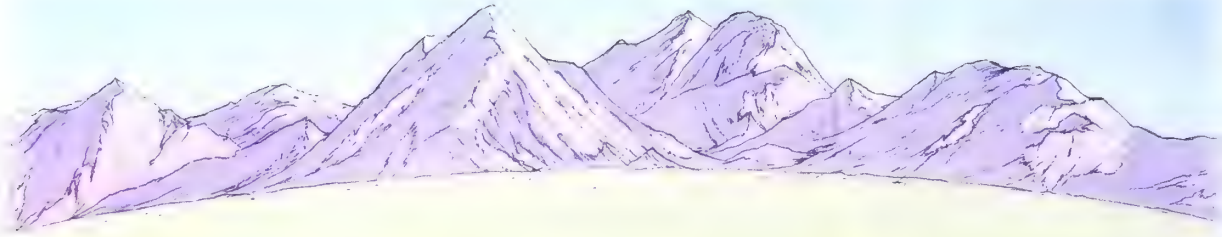

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DITED BY JOHN PEARSON

MEXICO: CAN ZEDILLO TURN AN ARREST NTO A MASTERSTROKE?

fter more than two months of wavering amid a deepening economic crisis, President Ernesto Zedillo Ponce de León may have found a way to take charge. On Feb. 28, he ordered the arrest of former President Carlos Salinas de Gortari's brother, accused of plotting the assassination of a leading politician last year. "Nothing and no one is above the law," prosecutors said, as they announced that Raúl Salinas de Gortari had been imprisoned to await trial for the September killing of José Francisco Ruiz Massieu, former secretary general of the long-ruling Institutional Revolutionary Party (PRI). Short term, the move is likely to increase investors' skittishness about Mexico by underscoring the deepening rifts in the PRI. But Zedillo clearly hopes that his bold action will strengthen his own image of leadership, badly battered by the December peso devaluation and signs of a deepening economic recession.

BACKLASH. Zedillo's move marks the severance of cordial ties with his predecessor. Salinas handpicked him as the PRI's candidate following the assassination of his first choice, Luis Donaldo Colosio, a year ago. But in ordering the dramatic arrest, Zedillo also took a cue from his predecessor. Shortly after President Salinas took office in 1988, he arrested and imprisoned a powerful and corrupt oil-workers union leader. The action gave Salinas a reputation as a decisive leader. For Zedillo, though, the risk is that Salinas will lash back: He has already started blaming Zedillo for the current economic troubles.

Indeed, Zedillo could be playing with fire. He is serving notice on old-guard PRI *políticos* that he is determined to push ahead with his "clean hands" campaign for integrity and cleanness in politics—even if curbing corruption, vote-rigging, and thuggery speeds the erosion of the PRI's 66-year grip on power. A dangerous political vacuum is developing, and enemies in the PRI could try to sabotage his presidency. "If Zedillo doesn't convince the people that this was a surgical procedure to remove just one tumor, he could have real trouble," says Adolfo Aguilar Zinser, a legislator for the left-leaning Party of the Democratic Revolution.

Still, the decline of the PRI's monopoly has been almost inevitable since Salinas' opening of Mexico's economy, which freed the PRI government's vast patronage powers and its ability to reward key constituencies, from labor unions to business lobbies. The multiple economic and social forces unleashed by the North American Free Trade Agreement, signed in November, 1993, further strained the country's closed, one-party structure.

The PRI's decline was underscored by last month's victory of the leading opposition party in a major state election. And at the grass roots, Mexicans across a broad spectrum of society are organizing into protest groups that could spawn a whole new set of political forces. In Mexico City, Chanel-clad upper- class housewives have been marching to the presidential palace every Thursday to protest inept management of the economy. Nationwide, groups called Barzón, made up of middle-class businesspeople and farmers, are springing up to demand easier terms for business loans and mortgages. On Mar. 17, Barzón threatens to shut down the nation's banking system with massive protests. Even powerful executives, long accustomed to clubby access to government officials, are rebelling: In Monterrey and Veracruz, companies are refusing to pay taxes.

MEXICO CITY PROTEST: *Public anger is growing*

The PRI is bound to suffer more damage in coming weeks as another investigation—this one into the assassination of presidential candidate Colosio—exposes another ugly conspiracy. Already the probe has resulted in the arrest of a PRI operative as the second gunman.

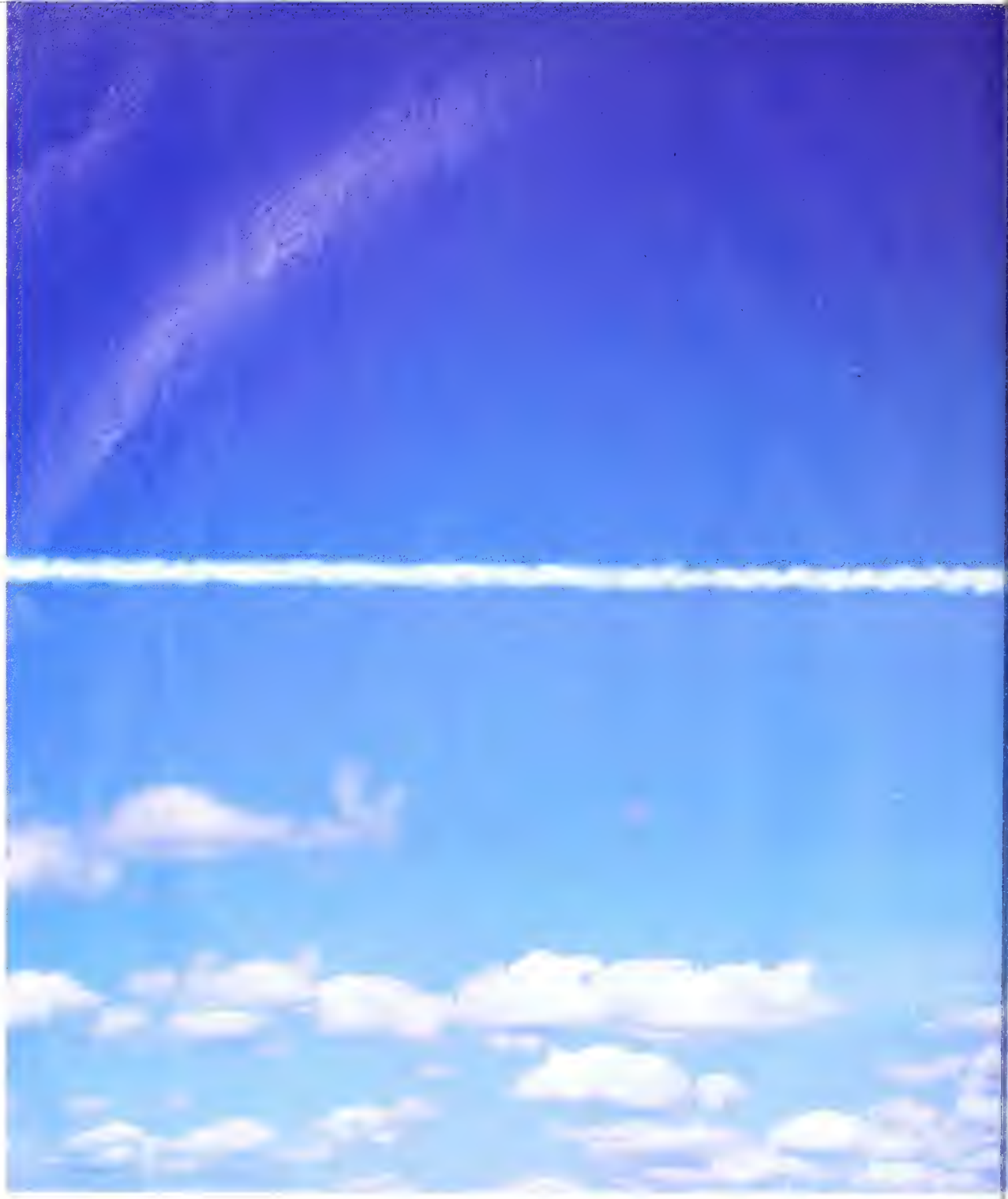
As the PRI's rotten core becomes increasingly evident, the party benefiting most is the center-right National Action Party (PAN). It has long stressed responsible finances and honest government. Thus, it comes as little surprise to Mexicans that the long-stalled investigation into Colosio's killing only advanced after Zedillo named a PAN official as Attorney General, the first opposition Cabinet member ever. Now, the PAN's recent victory in Jalisco state, and the likelihood of winning in other state elections this year, has buoyed party prospects. "We aim to win six new governorships, gain more power in Congress in the 1997 elections, and win the presidency in the year 2000," PAN Secretary General Felipe Calderón says confidently.

DECAY

As the PRI's corruption becomes evident, the party benefiting most is the center-right PAN

For Carlos Salinas de Gortari, the arrest of his brother, who had long been rumored to have links with corrupt politicians and drug traffickers, is an ugly blemish on what had seemed a remarkable presidential record of economic and diplomatic achievements. The crucial flaw in Salinas' presidency, though, was his leaving behind a ticking devaluation time bomb. Now, Zedillo must find ways to assert more democratic leadership if he is to lift Mexico out of the sinkhole into which it fell just a few days into his presidency.

By Geri Smith and Stanley Reed in Mexico City



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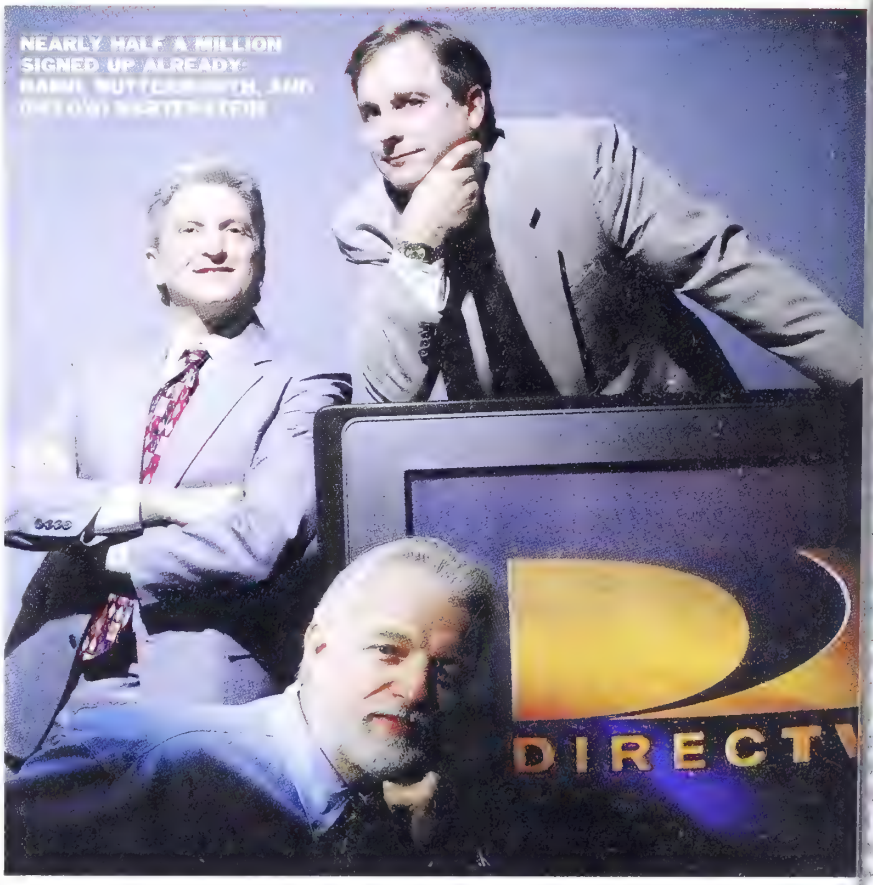


STRATEGIES

DIGITAL TV: ADVANTAGE, HUGHES

The GM unit's DirecTV satellite system is off to a fast star

At General Motors Corp.'s annual meeting last May, shareholders hardly noticed the shiny new cars lining the hall. Instead, they crowded around an oversize television and a pizza-size satellite dish—and marveled at crystal-clear images of *The Fugitive* accompanied by a thumping, CD-quality sound track. No one had ever seen TV quite like this before.

For once, GM executives didn't mind that their cars went unnoticed. The enthusiastic crowd was the first tangible sign that GM's risky $750 million bet on a new digital satellite-TV venture might pay off. Now, just six months after the national rollout of the satellite service, DirecTV is a consumer hit. More than 700,000 satellite dishes and decoder sy- tems have been shipped—and near half a million subscribers pay $30 month for a high-powered signal car- ing 175 channels. Compare that w the VCR, which sold fewer than 300,0 in its first year. "This is the bigg thing since color television," cro DirecTV President Eddy Hartenstei

BOMB FEAR. Brainchild of Hartenst and a handful of others at GM's Hugh Aircraft Co., DirecTV hadn't alwa looked so promising. Indeed, in eav 1993, it came under intense scrutiny GM's board. Rocked by automotive lo- es, board members feared funding a new-product bomb. But Hartenstei's band of engineers—who had spent th

DirecTV expects 10 million subscribers by 2000. But can it get beyond hard-core videophiles and sports nuts?

areers building huge communications ystems for the Navy and NASA—coninced GM they could create a popular onsumer-electronics product.

After a four-year scramble to develop viable digital-TV system, Hughes and s partner, RCA-Thomson, have done ist that. To get there, engineers and iarketers overcame technical glitches id programming roadblocks. Hughes so had to surmount skepticism toward itellite TV fed by the failure of half a ozen similar projects. With the early iccess of DirecTV, Hughes has beaten ble-industry rivals to the punch. DicTV is outselling Primestar, a competg cable-industry offering, by 2 to 1.

That prospect certainly seemed reote in 1990. That was when Hartenein, a longtime Hughes executive rently returned to the big defense ntractor after a stab at running his m business, asked Hughes engineer ll Butterworth to outline a plan for gital TV. Hughes had just killed its oubled SkyCable satellite-TV project—joint venture with NBC, News Corp., d Cablevision Industries. But, desrate for commercial revenues to reice dwindling defense business, Hughdecided to go it alone.

CONFIDENCE. Butterworth's challenge is enormous: Hughes would have to velop a new generation of satellites werful enough to beam reams of digl data to as-yet-nonexistent home revers. "I sat there thinking: 'How will ever pull all this together?'" he says. d GM insisted Hughes find backers share the $1 billion cost. Hughes ben with the Hollywood studios, but y balked at financing unproven techogy. "GM essentially came around begig," says one studio executive. "It n't exactly inspire confidence."

The first break came in 1991, when S. Satellite Broadcasting, a unit of bbard Broadcasting Inc., a St. Paul inn.) cable company, ponied up $100 lion for rights to broadcast 22 chans. After a $125 million deal with the tional Rural Telecommunications operative, GM gave its O. K.

The satellite team also fought an upbattle inside Hughes. Butterworth w that to succeed, they would have distance themselves from their par: The longtime Pentagon contractor known for high quality—and even her costs. Yet word that DirecTV ld require sophisticated home-der boxes and satellite dishes brought vy lobbying by Hughes units eager for the business. Instead, Butterworth sought a consumer electronics maker willing to help develop the technology to manipulate digital TV signals. Although Hughes's labs had the leading-edge technology, Butterworth knew that not exceeding the $700 price that consumers appeared willing to spend meant he needed an experienced manufacturer.

Access to Hughes's technology brought interest from Toshiba, JVC, and AT&T. But Hartenstein and Butterworth chose RCA-Thomson. RCA had assured Hughes it could hit $700, and its 11,000 dealer retail network guaranteed distribution. To get the TV maker on board, Hartenstein gave RCA exclusive rights for the first 1 million decoders.

Hughes Launches A Hit

FEBRUARY, 1990 Sets $1 billion SkyCable venture with NBC, News Corp., and Cablevision for direct-broadcast satellite service. By yearend, strategic disputes lead Hughes to pull out and develop service alone.

MARCH, 1991 U.S. Satellite Broadcasting pays $100 million for 22 channels on Hughes's satellite, providing key high-powered backing.

FEBRUARY, 1992 RCA-Thomson agrees to develop digital decoder boxes and inexpensive satellite dishes in return for exclusive rights to sell the first 1 million units.

OCTOBER, 1992 Hughes signs a $50 million deal with Sony to develop state-of-the-art videotape machines—the heart of its $100 million digital-broadcast center.

JANUARY, 1993 The Disney Channel and Paramount Pictures finally agree to provide programming. Eventually, two dozen studios and cable networks sign up.

OCTOBER, 1994 As the national rollout of 175-channel service begins, the NFL agrees to provide $139 "season tickets" broadcasting 12 games each Sunday.

FEBRUARY, 1995 RCA-Thomson ships 700,000 units. Nearly a half-million households sign up.

Hartenstein still had to fill 175 channels. To lure viewers, DirecTV would need familiar cable fare and more: hit movies that play every half hour and enough sports for the most avid fans. But programmers, who were tied to cable, wouldn't budge. "[There was] lots of talk, but no deals," says James Ramo, DirecTV's marketing head. "Everyone wanted to be the first one to be second."

STRONG LOBBY. Meanwhile, David Baylor, hired from NBC, was working out how to digitize programming. Existing digital-tape machines cost $100,000 a pop—and the tapes they played were $165 each. Since Baylor needed 320 tape machines and a 50,000-tape library, "that would have broken the bank—even Hughes's bank," he says. But Sony Corp. planned to release new digital videotape players in 1996. A $50 million contract persuaded it to move faster. By June, 1993, Sony delivered the $40,000 machines and $85 tapes.

The Cable Regulation Act of 1992 finally provided the needed break. Hughes's Washington ties came in handy, as it lobbied for a clause requiring programmers to offer shows to rival delivery systems. "Without that, we would have been dead," says Ramo. First came the Disney Channel in January, 1993. Then a deal with Paramount Pictures. Other studios followed soon after.

But trouble was hardly over. In May, 1993, the GM board called Hartenstein in. Wall Street was worried, and board members had doubts about satellite TV. Would it work, wondered GM Chairman John G. Smale? Who would buy it, asked board member Anne L. Armstrong? "The problem," says Ramo, "is we couldn't tout our product, because we still weren't sure what we had."

While Hartenstein convinced the board that DirecTV was on track, DirecTV's market research showed that sports fans would be the most likely to pay $700 for the system. So Ramo's staff began negotiating with the National Football League, the National Basketball Assn., and the National Hockey League. That led to one of DirecTV's most alluring offers: For $139 per season, football fans can choose any of a dozen Sunday games.

By early 1994, Hughes was at last hitting the home stretch. But when test broadcasts into 500 homes produced frozen screens and jumpy movement, Hartenstein delayed DirecTV's launch.

As programmers worked out the software bugs, DirecTV began to deliver its

promise: scads of channels, crisp images, and sound far superior to cable. When the system went on sale for the first time, in June at Cowboy Maloney's Electric City in Jackson, Miss., videophiles snaked out the door. Within hours, all 500 units were gone. "It was like selling air conditioners in 120-degree heat," says Chairman J. Con Maloney.

BREAKEVEN. Since then, DirecTV, which Bill Butterworth concedes "could have turned into an unmitigated disaster," has taken off. RCA-Thomson, already running two production lines, will add a third this spring. With Sony hitting the market with competing decoders in June—and with three more manufacturers expected by 1996—analyst Cai von Rumohr of the Boston brokerage Cowen & Co. estimates prices will drop roughly $100 a year over the next four years. Hartenstein expects to have 3 million subscribers by 1996. With each paying $30 a month—all of which Hughes retains—he says DirecTV should hit breakeven next year. And if Hartenstein can achieve his target of 10 million customers by decade's end, he is projecting operating profits of $1 billion on revenues of $4 billion.

But if DirecTV has won the first round, the battle is far from over. Red-hot initial sales are fueled by vide philes and sports addicts, but it w take several years to see if regular t viewers will also pay a premium f DirecTV. And DirecTV's success h shaken Primestar, the competing sate lite service backed by the cable industr out of its lethargy: It's improving servi es and gearing up for a much bigg fight. Eventually, cable and fiber opti may do a better job of delivering ev more programming. But for now, there no disputing that DirecTV has won t first leg of the race to digital televisio

By Eric Schine in El Segundo, Cal with Kathleen Kerwin in Detroit

CABLE OPERATORS BITE BACK

Call it corporate schizophrenia. Last November, Tele-Communications Inc., the nation's largest cable-TV company, launched a big advertising campaign to discredit direct broadcast satellite (DBS) service as being too expensive and hard to install. Never mind that TCI owns 22% of Primestar Partners, a consortium of six cable operators that offers DBS service to more than 300,000 households.

For most of its five-year life, Primestar has been a stepchild of the $23 billion cable industry. Initially intended for rural areas that are unable to receive cable, it has battled parental indifference, outmoded technology, and antitrust complaints. Even today, Primestar offers only about half the 175 channels of upstart rival DirecTV, carries far fewer NFL games, and uses a bigger, more unsightly dish.

PRIMESTAR'S CUSICK: *No purchase required*

PARALYZED. Now, TCI and its well-heeled partners will spend $1 billion to match DirecTV's technology and strengthen the programming. If they can do that, they reason, their big selling point will be that Primestar rents equipment to its subscribers, while DirecTV requires a $700 purchase. And many observers note that the DBS race has just begun. "I wouldn't count Primestar out," says Edwin S. Desser, president of NBA Television Ventures.

From the beginning, Primestar has had trouble. Launched in 1990—four years before DirecTV—its medium-powered, analog signal allowed only 10 channels. There was little marketing by the cable companies, whose management tended to think, "why should we divert resources to a 10-channel system?," according to Daniel J. O'Brien, president of Primestar member Time Warner Satellite Services. While waiting for the digital technology that would allow more channels, Primestar found itself paralyzed.

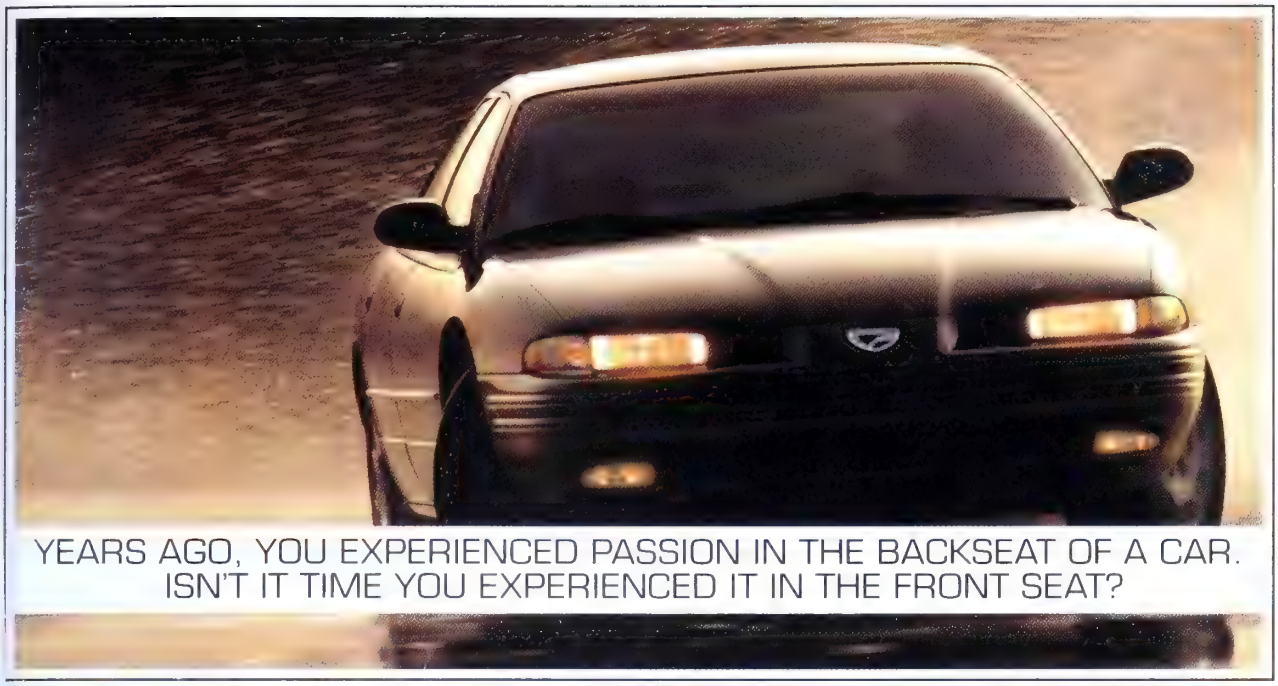
Then, cable operator Viacom Inc. pulled out, taking with it the highly valued MTV, Nickelodeon, and Showtime channels. The other members were left to fight a three-year Justice Dept. antitrust investigation into the issue of whether the cable coalition was thwarting satellite competition by refusing to provide programming to rivals. Eventually, the sides reached a settlement, but "it was the middle of '93 before we even knew if we were going to be in this business," says Primestar President John Cusick.

"A CANARD." Last year, when digital technology finally arrived, Primestar upgraded to 67 channels. But by then, DirecTV had launched its 175-channel service and had begun to run away with the market.

The cable consortium has since ordered a high-powered satellite of its own that will allow for 200 channels and the smaller dishes that DirecTV has. The partners—currently installing 30,000 dishes a month—claim they will have 1 million subscribers by yearend. A new, $100 million advertising campaign and a central 800 number for ordering service are helping. A flashy Super Bowl ad prompted 117,000 calls, and more followed from an insert in the *Sports Illustrated* swimsuit edition.

Cusick labels as "a canard" the re ports of parental indifference. As proof, O'Brien says, Time Warner has pledged at least $125 million in capital this year to finance equipmer and installation for 125,000 more cus tomers. "I couldn't ask for more," he says. He and his partners will need all they can get.

By Ronald Grover in Los Angele with Michael Oneal in New York



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RATE 1 (LOWEST) TO 5 (HIGHEST)

EXTERIOR APPEARANCE

- ☐ 1. Design & Color
- ☐ 2. Door Entry/Exit

SAFETY/SECURITY FEATURES

- ☐ 3. Air Bags†
- ☐ 4. Alarm System
- ☐ 5. Child Protection

ROAD PERFORMANCE

- ☐ 6. Steering
- ☐ 7. Cornering
- ☐ 8. Acceleration From Stop
- ☐ 9. Highway Merging/Passing
- ☐ 10. Braking
- ☐ 11. Riding Comfort

INTERIOR ACCOMMODATION

- ☐ 12. Instruments/Visibility
- ☐ 13. Seating Support & Comfort
- ☐ 14. Roominess
- ☐ 15. Climate Control
- ☐ 16. Audio System
- ☐ 17. Cargo Space

CUSTOMER ONE CARE

- ☐ 18. 3/36 Bumper-To-Bumper Protection

OTHER (YOUR PERSONAL CHOICE)

RECORD YOUR IMPRESSION OF 1 OR 2 OTHER ITEMS THAT CAUGHT YOUR ATTENTION DURING THE TEST DRIVE (EXAMPLE: THE CONVENIENCE OF EASY POWER ACCESS CONTROLS FOR WINDOWS, MIRRORS, AND DOOR LOCKS AT THE DRIVER'S LEFT).

- ☐ 19. _____
- ☐ 20. _____

1. Vision's revolutionary cab-forward design brings the edge of the windshield down and forward and moves all four wheels toward the corners–improving both handling and roominess while establishing a world-renowned design aesthetic (see your dealer for color selections).

2. Easy-opening flush door handles and wide-opening aircraft-style doors make getting in and out a delight.

3. Please don't try them out, but notice that driver and front passenger air bags† are standard on every Vision, as are side-guard door beams and designed-in crumple zones.

4. Ask for a demonstration of the optional vehicle theft alarm system that, when the vehicle is tampered with, will flash headlamps and taillamps, sound the horn, and disable the engine temporarily.

5. Vision offers an optional integrated child safety seat that replaces the center rear armrest and is designed for children weighing 20 to 60 pounds.

6. Speed-sensitive variable-assist power rack-and-pinion steering (standard TSi; optional ESi) makes turning easier in tight parking spots and firmer at highway speeds.

7. A rigid unibody reduces structural bending while the fully independent suspension utilizes front and rear stabilizer bars to control body roll through the turns.

8. Both the standard 3.5 litre engine on TSi and the 3.3 litre engine on ESi (214 and 161 horsepower, respectively) exhibit smooth off-the-line performance. On slippery surfaces, optional traction control (TSi only) limits wheel spin up to 25 mph.

9. Sophisticated sequential multi-point fuel injection and active-tuned air induction (3.5 litre) contribute to instant response for passing at highway speeds.

10. Standard four-wheel disc brakes with ventilated front rotors provide smooth stops. Anti-lock brakes (standard TSi; optional ESi) give you greater steering control to help avoid obstacles during a quick stop.

11. Cab-forward's longer wheelbase results in a naturally smoother ride. Thanks to the suspension's generous wheel travel, engineers were able to tighten ride and handling properties while minimizing harshness.

12. Steering, shifting, and other operating controls are designed and placed right where you need them. Sight lines are clear to instruments and side mirrors, as well as to traffic due to narrow front roof pillars.

13. Front bucket seats offer infinitely adjustable recliners, driver lumbar adjustment, and 8.6 inches of seat travel. Front seat belts are height-adjustable and belt buckles travel with the seat for proper fit and comfort.

14. Cab-forward helps give Vision an exceptionally roomy interior with generous legroom and shoulder room for three rear seat passengers.

15. Big rotary controls operate a powerful ventilation system with rear seat direction-a outlets. An automatic temperature control system (standard TSi; optional ESi) lets you set and maintain the temperature you select for the cabin. Solar-control windshield and rear window glass fight heat build-up.

16. Audio includes the standard 6-speaker stereo AM/FM cassette or an optional 11-speaker Spatial Imaging Sound System with 120-watt amp, 5-band graphic equalizer, and your choice of cassette or compact disc player.

17. Better access to 16.6 cu. ft. of usable trunk space comes by way of a decklid design that lowers the liftover height, making packages much easier to load.

18. Every new 1995 Eagle Vision comes with our Customer One Care, including 3-year/36,000-mile bumper-to-bumper vehicle protection and 24-hour Roadside Assistance.*

* See limited warranty at dealer.
† Optional by Cross Country Motor Club of California, Inc.

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RUBBER SOULS: *Adidas' Gazelle is a favorite of the under-30 set, for now*

HOES

SNEAKERS THAT JUMP INTO THE PAST

ıe "retro" look is all the rage–and without big ad campaigns

onverse Inc. didn't have any $150 air-pump-equipped basketball shoes hawked by celebrity pitchmen in ltimillion-dollar TV campaigns among best-sellers last year. It did, however, ve a $50 canvas sneaker designed in 1970s, called the One Star. Con-se's marketing strategy? It ran small in the likes of *Thrasher*, *Dirt*, and er trendy youth magazines. At Adi-, a booming business in its 1960s-era akers with the trademark stripes on sides pushed the company's sales up %, to $340 million, last year—despite advertising. Puma watched consum-race through all 1 million pairs it duced of its unadvertised $55 bas-ball sneaker from the 1960s, dubbed Clyde after former New York cks star Walt "Clyde" Frazier.

n the ever-fickle athletic-shoe mar-has-been sneakers are the trend. A years ago, it was $100-plus basket-shoes. Then outdoor boots. Now, it's ro" sneakers. Nostalgic styles from '60s and '70s are enjoying runaway s, all without benefit of celebrity en-sements or big ad campaigns.

ootwear marketers say the retro look, like all fads, is destined to fade. But the trend has had a solid impact on the athletic-shoe market. Sales of traditional sneakers, which sagged in 1993, rebounded by 4% last year, bolstered mainly by classic, no-frills styles. While that's hardly a blowout, the growth came as a big surprise. After 1993, experts said the decade-long boom in sneakers had run its course. But the sneaker revival has turned around many skeptics. Footwear stocks were the worst-performing industry group in the Standard & Poor's 500-stock index in 1993; last year, they were the best.

The Race for Market Share

Share of U.S. Athletic Footwear Market

	'94	'93	% CHANGE
NIKE	29.7%	31.7%	–6.3%
REEBOK	21.3	20.6	3.4
ADIDAS	5.1	3.1	64.5
L. A. GEAR	4.8	4.7	2.1
FILA	4.7	4.0	17.5
KEDS	4.6	5.8	–20.7
CONVERSE	4.6	4.3	7.0

DATA SPORTING GOODS INTELLIGENCE

Not surprisingly, Generation Xers are driving the retro trend. These sneaker-clad kids "don't like being overmarketed to, they don't like hype, and they're wise to paying a premium for celebrity-endorsed shoes," says Jane Rinzler, vice-president for youth marketing at Houston Effler Herstek Favat, the Boston ad agency that represents Converse. "It's an antisneaker sneaker kind of thing." Says Adidas Marketing Vice-President Ed Lussier: "The best advertising strategy is, you don't."

"BASIC WARDROBE." That's heresy for footwear marketers accustomed to glitzy ad campaigns. Industry leader Nike Inc. spent an estimated $120 million on ads last year. No. 2 Reebok International Ltd. laid out $70 million. But with the right styles, the antimarketing marketing strategy works. The trend has given a second wind to Adidas, Converse, and Puma, big players in the '60s and '70s that fell into the second tier in more recent years. Adidas jumped from the No. 8 U. S. athletic-shoe maker to No. 3 last year on the strength of 20-year-old styles such as the Gazelle. Meanwhile, Nike's U. S. shoe sales rose just 2%, as its high-tech basketball shoes languished. Reebok's U. S. sales, which fell 13% in 1993, climbed 12%, bolstered by its classic, midprice women's aerobics shoes.

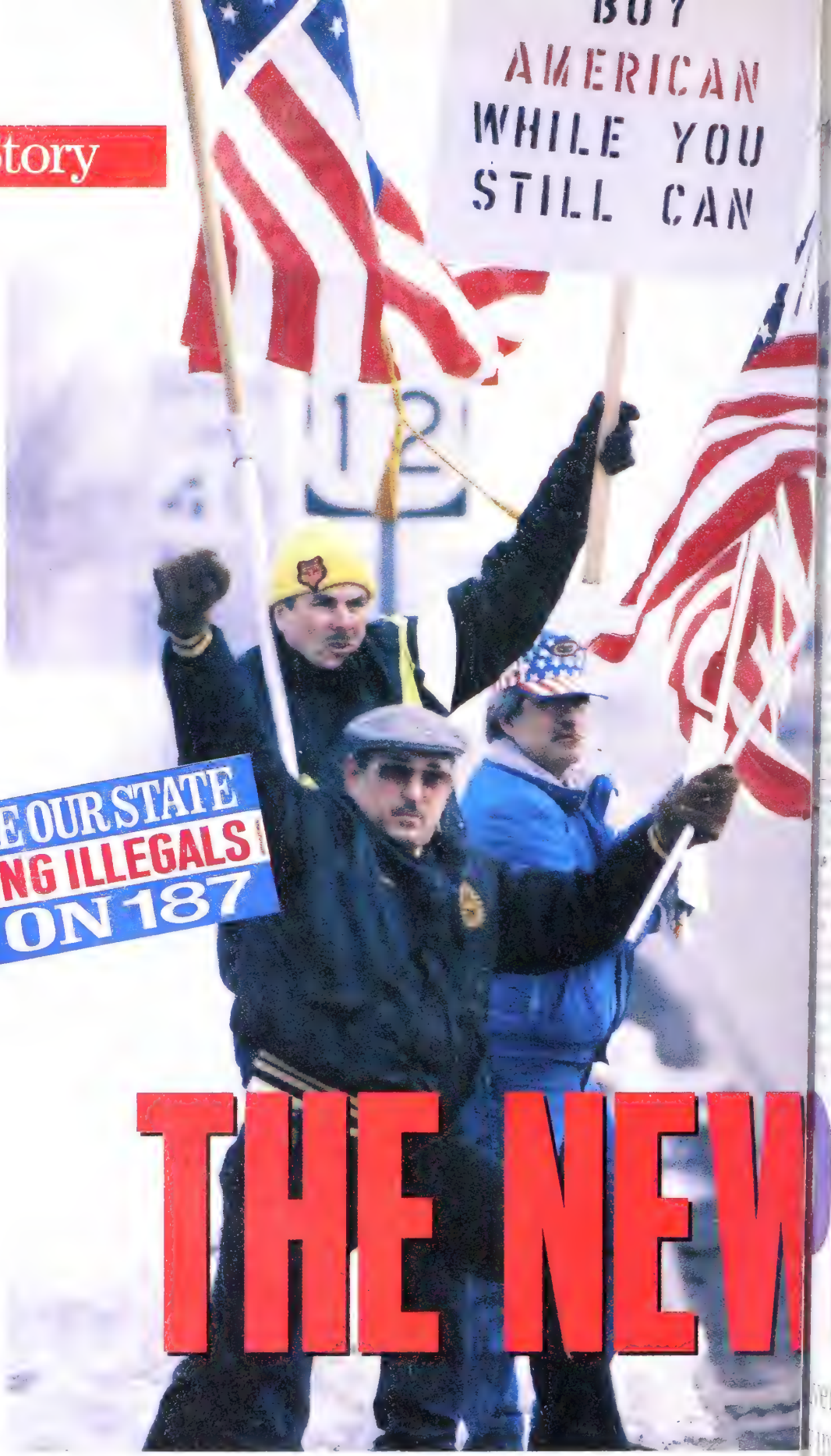
The sudden resurgence of old styles was sparked entirely by word of mouth, executives say. The shoes caught on with skateboarders, at hip-hop dance clubs, and in Hollywood. Madonna sported Adidas on the MTV awards show last year, and supermodel Elle Macpherson wears them in her new workout video. Patricia Field, who owns a boutique in Manhattan's East Village, says retro sneakers are among her hottest sellers. "The whole category is part of a basic wardrobe," she says.

Inevitably, the retro look will fade, perhaps as soon as this year. But shoemakers will try to catch the next wave with fresh styles later this year. Nike has a line of "industrial strength" sneakers called NDESTRUKT, which feature thicker soles and extra stitching. Both Nike and L. A. Gear Inc. will market a line of "street hockey" shoes made to look like skates. But how to market these new styles to the under-30 crowd that forms the mainstay of the sneaker market? Sometimes, it seems, the best way to be heard is to whisper.

By Geoffrey Smith in Boston

MARK RICHARDS (3)

WHOSE GAIN?
An alliance of unionists, Naderites, and conservative America Firsters fiercely opposes such trading pacts as NAFTA



BORDER WORRIES
The rising number of new faces from abroad is stoking the economic fears of an already anxious public

THE NEW

olks in Wichita will tell you that Brice Warnick is a man on a mission. A volunteer for Ross Perot's United We Stand organization, Warnick, 44, works sporadically as an insurance agent. But most of his time is spent sending feverish fax messages from his apartment, a cluttered outpost in the war against free trade. When isn't running up $1,000-a-month phone bills tworking with other activists, Warnick is stirng up the locals to write angry letters or demstrate outside politician's offices.

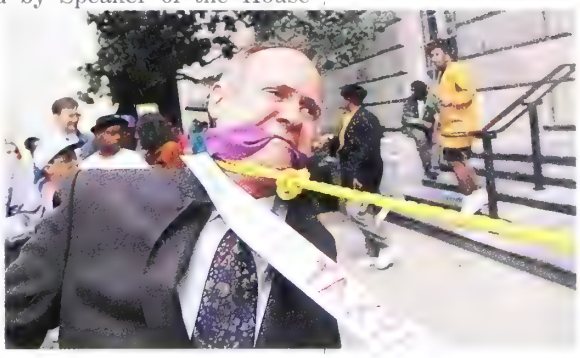
Before you dismiss Warnick as just another ecntric, consider this: His agitating translates o real power on Capitol Hill. During a twoek stretch last year, the office of Senator Bob le (R-Kan.) was flooded with 2,000 calls a day m irate citizens opposing the General Agreent on Tariffs & Trade. Warnick instigated the otest, mobilizing an unlikely alliance of Perotas, union members, conservative Republias, and Naderites. Hill staffers say that his ssroots campaigns also generated fierce oppoon to the North American Free Trade Agreent and helped sink the Clinton Administran's first Mexican loan package.

'I grew up with a populist mentality," exins Warnick. "You can't compete with $40-anth labor." Despite his Perot ties, Warnick is king for a more aggressive champion in 1996. likes America Firster Patrick J. Buchanan. e main issue," Warnick says, "is getting back economic nationalism."

om Paine, meet Brice Warnick—electronic phleteer, zealot, and New Populist. Warnick s the tools of the modern age. But his tars—industrialists, global financiers, foreign kers, and arrogant elites—have a familiar . They are remarkably similar to the Powers t Be that riled populists of bygone days.

UP. The conviction that Americans are being shed under the heel of giant forces has wned a disparate protest movement that is ding America—ending a generation of Demoic congressional rule, eroding support for trade, building stiff resistance to U. S. milimissions abroad, and attacking the very on of government itself.

hese New Populists include economic nalists who are fed up with the financial pain ving with free trade, religious fundamentalists seeking a return to traditional values, Perot-style independents, and talk-radio hosts who stir anti-Establishment resentment. Above all, there's a band of GOP populist-conservatives in Washington, led by Speaker of the House Newt Gingrich (R-Ga.), eager to channel this public angst into a revolutionary drive to cut big government and shift much of its power to the states.



Why the furor? One reason is pure economics: The Darwinian demands of global competition have led to waves of corporate downsizing. Real median incomes haven't moved much for two decades, while the earnings gap between the richest and poorest Americans has widened. That has heightened workers' economic insecurity and sown doubts about the future (page 80).

"The New Populism has an awful lot to do with economic stagnation," argues Labor Secretary Robert B. Reich, striking a refrain currently popular among liberals. "The middle-income person over the last 15 years found incomes under greater and greater stress, and he has exhausted his coping mechanisms."

Conservatives don't dismiss the lunch-pail argument but add that social libertinism and an intrusive "nanny state" have also fed resentment. "Economics is important, but at bottom, populism is driven by quality-of-life concerns," says pollster Frank I. Luntz, a Gingrich adviser. Adds Grover G. Norquist, a Gingrich brain-truster who heads Americans for Tax Reform: "Liberals just can't believe people can get angry over high taxes, overregulation of their lives, and all the money spent on social welfare."

Moreover, the advent of the Information Age is stirring deep anxiety across America. The shift from manufacturing to services has created a class of economically threatened workers. "Thir-

TAXES, NOT!
At the state level, a tax revolt has been followed by a rush of new initiatives

Conservatives Forge New Strategy To Challenge Affirmative Action

By B. DRUMMOND AYRES Jr.
Special to The New York Times

LOS ANGELES, Feb 15 — An effort by two San Francisco-area academics to eliminate affirmative-action programs in California has set off a debate over civil rights that is rapidly spreading across the country and threatens to be one of the most divisive national dialogues in years.

The two professors, Glynn Custred and Thomas Flood, who describe

vin Field, the dean of California poll takers who runs the California Poll.

Recent surveys show the professors' effort may succeed, not just in California but elsewhere. It is an approach that is already being injected into the 1996 Presidential race and that is also beginning to spark some ugly exchanges, even among old friends and political allies.

For some Democrats with im-

NEGATIVE ON AFFIRMATIVE
A California rollback may win voters' approval, and similar measures are likely to appear in other states

POPULISM

iverse movement is shaking America—and
y imperil its role in the global economy

FUEL FOR THE RIGHT

Conservatives and the Christian Right say social libertinism, crime, drug use, and the decline of the family have provided momentum for their movement

ty years ago, you could graduate from high school, get married, have kids, and live a decent life in a blue-collar town," says Gary L. Bauer, president of the Family Research Council. "Changes in the economy now make that impossible. There are fewer jobs, and it's harder to sustain a family. These people feel thrown away, passed by, and ignored by Washington. That fuels backlash."

LONG TRADITION. This feeling of abandonment, amplified by America's uncertain role in global affairs and a U.S. populace increasingly drawn from differing ethnic backgrounds and cultures, has spawned fears that the bottom is falling out of the American Dream, says pollster Luntz. "People are afraid to go out in their neighborhoods," he says. "They fear their kids can't get a decent education. They worry about a lack of savings. That anxiety is projected onto a government so out-of-touch that instead of protecting them, it's doing them harm."

Populism, of course, dates back to the dawn of the republic. It infused debate between Hamiltonian Federalists, who favored central government authority, and Jeffersonian democrats, who favored rural interests. It was etched in Andrew Jackson's pleas for the yeoman farmer during the battle over the Bank of the United States. And it exploded again during the turn-of-the-century agrarian rebellion, when Willi Jennings Bryan led a farmer-miner coalit against Eastern industrialists.

Echoing Enlightenment ideals, early popul championed egalitarian notions of social refo But during the Great Depression, Franklin Roosevelt's creation of the welfare state set motion forces that profoundly altered the mo ment. Initially, resistance to activist governm was muffled by the postwar prosperity t fueled the great expansion of the middle cl But opposition to federal intrusion broke i the open in the 1950s and 1960s, triggered by "states rights" revolt against civil-rights law

The result was a backlash that spawned Barry Goldwater insurgency of 1964, Geo Wallace's "Send 'Em A Message" protest of 1 and the Reagan revolution of 1980. Reagan's cension underscored that conservatives had defined modern populism. "Gingrich represen long tradition," says Michael Kazin, an Amer University historian and author of a new boo

Populism's Faces

An unlikely coalition of leaders, primarily conservative Republicans, has emerged to tap the growing anger and frustration that is sweeping across America. Their common thread: A belief that big government is the source of many of the nation's problems.

AMERICA FIRST

PATRICK J. BUCHANAN

The conservative TV commentator believes the collapse of Communism allows the U.S. to eschew peacekeeping missions abroad. An isolationist, Buchanan is also against "one world" organizations such as the U.N. and the World Trade Organization.

MILITANT MORALISM

RALPH REED

The executive director of Pat Robertson's Christian Coalition, a savvy political organizer, has made the Christian Right a key force in grassroots GOP politics. Now, Reed is threatening retaliation against Republican candidates who support abortion rights.

THE THIRD FORCE

ROSS PEROT

The b Texan out tr the n citizer patior deficit but has moved on t free-trade pacts. Aft 19% of the Presider in 1992, Perot coul cide to start a third

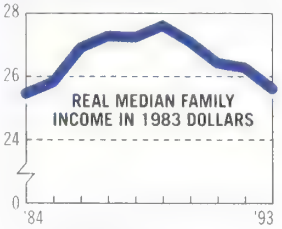
ed *The Populist Persuasion.* t's antigovernment, antibureau-atic, and claims traditional val-es are being corrupted by a cos-opolitan, un-American elite."

Two recent events gave conser-ative populism new vigor. The st was the end of the cold war. hat permitted conservatives to ift their guns from Communist otters in Moscow to centralized anners in Washington. The sec-d was the election of Bill Clin-n, a populist out of Arkansas—a Yale and Oxford Universities. Clinton won by espousing such log-cabin emes as his fealty to "the forgotten middle ass." He pledged to rid Washington of corrupt luence-peddlers and give it back to "the aver-e Americans who work hard and play by the les." But the failure of his reform agenda, his iance with hated Democratic Hill leaders, and ealth-reform plan that Republicans successful-tarred as "socialized medicine" has shorn Clin-of his populist trappings. "Clinton under-nds the populist vocabulary," says Paul E. gala, a political adviser to the White House. ut we punted for two years and paid the price. w, we have to define a new progressive popu-n that shows Gingrich is selling off the gov-ment [to] the powerful."

In the short run, Republican control of Con-ss gives the GOP a rare opportunity to down-e bureaucracy, cut waste, and regain public st. Success could vault the party toward ma-ty status. But failure would be costly. It could public cynicism and accelerate the breakup of two-party system. "Politicians can get aboard drive for change, or they'll get run over by a n," says Senator Fred Thompson (R-Tenn.). we bog down in Washington, we'll have an-er revolution in two years."

Business has cheered the Republican electoral mph. After all, the new GOP majority promis-o cut taxes and slash regulations. And Newt-s laud risk-taking entrepreneurs as role mod-But for CEOs who look beyond the promise of er capital-gains taxes, a more sobering side of the revolution becomes apparent. Just what are those "corporate subsidies" the GOP freshmen vow to kill? And what about renewed calls for protectionism—just when U.S. corporations are rushing toward the global economy?

LOWER INCOMES: A SOURCE OF DISCONTENT



DATA: COMMERCE DEPT

To some executives, the revolt against globalism isn't surprising. "When people feel a lack of power, they become defensive," says Joseph P. Sullivan, chairman of Vigoro Corp., a Chicago-based fertilizer producer. "The reduction of middle-management jobs had a systemic impact on the confidence of the middle class. Business lives in a fool's paradise if it thinks it can get away with doing nothing" in the face of this anxiety.

The animosity toward Washington's peso rescue—a move widely supported by Big Business—shows just how removed traditionally capitalist Wall Street has become from increasingly populist Main Street. With a government committed to open markets, anti-inflation policies, and privatization, Mexico was the exemplar of an emerging economy. So its implosion over a botched peso devaluation has for many raised fundamental questions about the wisdom of America's pursuit of an interdependent continental trading bloc.

Worse, CEOs proved to be poor lobbyists for the free-trade cause. "There's an elitist belief among multinationals that international economics is beyond the bailiwick of the boobs on Main Street," says political analyst Kevin P. Phillips. "So you get tricky midnight votes and things like fast-track authority. On Mexico, people finally said 'enough.'"

BUSINESS SPLIT. Business leaders are split over the meaning of such populist flare-ups. "We have noted this rise in populism with some anxiety," says Arthur H. House, vice-president for corporate affairs at Tenneco Inc. "We supported NAFTA and GATT and believe in a strong World Bank and IMF. They're critical parts of American policy." Adds E. Martin Duggan, executive director of the Small Business Exporters Assn.: "I'm a conservative Republican, but on trade I'm a flaming liberal compared to some of these new House Republicans. They can do enormous damage."

But others—especially the fast-growing younger companies that the Newtonians deify—view populism more favorably. "The rhetoric of New Populism is about building jobs and economic activity," says T.J. Rodgers, CEO of Cypress Semiconductor Corp. in San Jose, Calif. "If I ignore the stupid things [Gingrich] says, everything he has done is dead-on right. I'm hoping Republicans will continue their usually good economic policies and discard some of their more restrictive social policies."

Still, many executives believe

POPULISM THROUGHOUT HISTORY

pattern in American

of the republic

BRYAN'S BRAINSTORM

D-WAVE ERVATIVES

GINGRICH

Although he is a Washington insider, his campaign to reduce the cost and scope of government has chord with tax- and n-weary New Pop-e promotes policies to l and high-tech busi-ut still taps Corporate for donations.

RADIO RADICALS

RUSH LIMBAUGH

Heard by 20 million listeners a week, Limbaugh epitomizes the new wave of conservative talk-radio hosts who reflect the anger of the New Populism. Limbaugh targets: "Environmentalist Wackos, Militant Vegetarians, [and] Feminazis."

HUEY'S GANG

that an overhaul of America's social values is every bit as needed as conservative economic reform. And dramatic changes in U.S. social policies seem certain, given the intertwined interests of the forces marching under the New Populist banner. Among the groups on the move:

■ **America Firsters.** Led by commentator Pat Buchanan, hard-liners believe the end of the cold war compels the U.S. to abandon internationalism and focus on domestic woes. Buchanan rejects foreign intervention and labels NAFTA, GATT, and the Mexican bailout "betrayals of American sovereignty. Both parties are dominated by Wall Street, transnational companies, and the financial elite," he thunders.

This nationalism is coupled with a tough social policy. Buchanan takes an absolutist position against abortion. He would deny aid to illegal immigrants, and he seeks a 200-mile "security fence" along part of the Mexican border. The U.S. needs a "time-out on immigration," he says, while newcomers "assimilate and Americanize." According to Kazin, "Buchanan hearkens back to Father Coughlin's 1930s isolationist-conservatism. There's the fear of foreign bankers, the tough, McCarthy-like talk. But he can't be a viable candidate. He's too divisive."

■ **The Third Force.** Independent Ross Perot began his 1992 Presidential bid armed with potent populist messages: He vowed to wipe out an "immoral" deficit and break special interests' grip on Washington. Perot also championed electronic town-hall meetings and other forms of participatory democracy. But after winning 19% of the vote, the Texas billionaire has increasingly targeted his appeal to disgruntled voters on a denunciation of hemispheric free trade.

COUGHLIN'S CALL

Perot said last fall that he would launch a third party if Republicans pushed GATT over the top in a lame-duck congressional session. They did, and he is. Perot's state affiliates are expected to organize a new independent party later this year. "Perot may run again because the issues that turn him on—opposition to Wall Street, global finance, and internationalism—are going to stay hot," predicts Phillips. "Either way, chances of a third party, maybe even a fourth and fifth, are rising."

■ **Christian Soldiers.** When the Reverend Jerry Falwell's Moral Majority began to fade in the 1980s, some thought the drive to meld religious fundamentalists into a grassroots force had ebbed. They didn't count on the rise of televangelist Pat Robertson, whose silken sermonizing and organizational skills have turned the 1.5 million-member Christian Coalition into a populist powerhouse within the GOP. Kazin terms these religious militants "the New Abolitionists." Alarmed by crime, family breakup, rising illegitimacy, and media permissiveness, they're fighting to shore up America's crumbling moral base.

Increasingly, conservative Christians are run ning slates for local school boards and count commissioner's posts—and winning. They als have gained control of the GOP party apparatus i a dozen states, including Florida, South Carolin Texas, Virginia, and Washington.

The Coalition is powerful inside the Beltwa too. Led by Executive Director Ralph Ree Robertson forces are pushing for the econom planks of the GOP Contract With America—ar waiting to shift the debate to school praye abortion curbs, and limits on sex and violence the media. "Critical mass for cultural conserv tives," says Reed, "is the social pathologies th can no longer be endured. When you have inn cities that resemble Beirut, the highest illegitim cy in the Western world, and a million teenage getting pregnant, that is social chaos."

■ **Radio Rebels.** Few soldiers in the populist r bellion believe that the "liberal media" tell like it is. That has led to creation of alternati

communication pathways that detour around the Establishment press. Conservative radio commentators have built an audience by roasting liberal excesses. Their heaviest hitter: Rush Limbaugh, whose blend of humor and pontificating make him a hero to many with a grudge.

CULTURAL ADVERSITY?
A backlash against demands for gay rights is now being expressed at the polls

Limbaugh's call-in show is broadcast over stations. His targets: "Communists, Socialis Environmentalist Wackos, Feminazis, Libe Democrats, Militant Vegetarians, Animal-rig Extremists, [and] Liberal Elitists" everywhe "It's the extremists on the liberal side that things in this country," Limbaugh grouses.

His response is a savage send-up of the v fare state that turns victimization on its head typical spoof: the "Homeless Olympics," wh features "the 10-meter Shopping-Cart Re Dumpster Dig, and the Hop, Skip, and Ti competition. To some, Limbaugh's burlesques offensive. But don't tell that to his fans. "L baugh is the populist voice of America," s Luntz. "If you want to know what average p ple think, you've got to listen to Rush."

Heartened by its radio success, the Righ

ɔranching out to TV. National Empowerment Television is an alternative cable channel started ɔy a group including former Heritage Foundation scholar Burton Yale Pines. One of NET's stars: Speaker Gingrich, whose weekly show trumpets ıis notions of self-reliance.

Internet links, computer bulletin boards, radio alk shows, and cable channels are "a cornerstone of the New Populism," says Keith Appell, vice-president of Creative Response Concepts, conservative media firm. "This all flies below Beltway radar." Adds NET President Paul Weyrich: "Bypass is crucial, because any populist hat questions, say, the World Trade Organization, is portrayed as a complete know-nothing by he established media."

■ Third-Wave Conservatives. Gingrich's inside-the-Beltway band of crusaders is an unlikely bunch f populists. Gingrich is a former history professor given to quoting Alexis de Tocqueville and ıturist Alvin Toffler, whose Third Wave theories ıronicle the rocky transition to the Informa-

ɔn Age. Key allies, House Marity Leader Richard K. Armey -Tex.) and Senator Phil Gramm -Tex.), have doctorates in ecomics. Although much of what ey seek is a traditional Republin agenda, their years on the pocal fringes have given the trio a mmand of populist idiom that ɔuld bring a smile to the face of ıey B. Long. Case in point: amm's frequent tributes to cky Flatt, a small-town printer whose country milies lampoon government excess.

CHOICE OR NO CHOICE?
Many right-wing populists and Christian fundamentalists take an absolutist line on abortion

Newtniks are also different when it comes to ɜir love of things technological, though. Popu-s during the Industrial Revolution equated ɔomation with job losses. But Gingrich is ectically upbeat about the promise of the Knowlge Economy. Says Heather R. Higgins, a scholat Gingrich's Progress & Freedom Foundation: ewt's on the cutting edge when he says the inmation economy will raise living standards." In t, Gingrich has mused that Republicans have fight techno-illiteracy by convincing inner-city s that "the Internet is for them, too." Civil hts leader Jesse Jackson's response: "Man ɜs not live by Internet alone. We need prenacare, Head Start, and vocational skills."

Gingrich's futurism has led him to take his cause to the far reaches of the World Wide Web, to put House deliberations online, and to promote E-mail links between legislators and constituents. But some wonder whether the info-push has much populist resonance. "New Populism is a gut-level emotional reaction by people that feel disenfranchised," says GOP political consultant Mark Goodin. "Newt's Third Wave stuff is more like the New Cerebralism."

■ State Rebels. Perhaps the purest expression of New Populism can be found bubbling up from the states, where citizens are pushing many new initiatives to rein in government. In an echo of the Seventies tax revolt, for example, the term-limitation movement has restricted politicians' tenure in 22 states and is pursuing curbs in seven others.

Lately, the initiative movement has turned to social issues. Last year, California voters approved a ballot proposal that denies services to illegal immigrants. A similar measure is expected to be on the Florida ballot in November, and variants may spread to Texas and other border states.

The latest bombshell from the Golden State is the California Civil Rights Initiative, which seeks to end affirmative-action preferences. "All we are doing is returning to the letter and spirit of the 1964 Civil Rights Act," says initiative co-author Thomas E. Wood, who feels he was denied a university promotion because he is white and male.

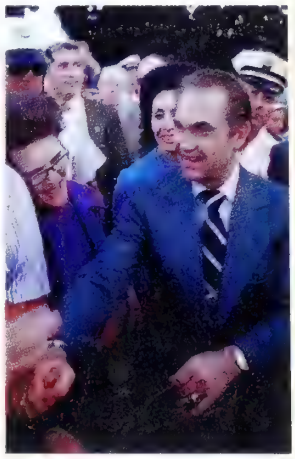
There is little doubt that CCRI will get the 640,000 signatures required to put it on the ballot in March or November. And it's expected to pass and be exported to other states. GOP candidates aren't waiting, though. Gramm has scurried to make opposition to minority preferences a part of his stump speech. "This was a populist roar of anger that Washington politicians refused to hear," says Luntz. "It finally overtook them."

If there is debate on the wellsprings of New Populism, there is even more disagreement about where this anger will lead. Despite Gingrich & Co.'s inflammatory rhetoric, many aspects of their revolution hold a promise to shake up a Washington Establishment that needs upending. Few would object to the GOP's move to reform Congress, cut uneconomic subsidies, or replace ossified programs with market-based mechanisms. Moreover, the stress on individual responsibility, rather than a perpetual government crutch, seems ripe for testing in the states.

"It's a mistake to just think of New Populism in political terms," says Alan Heslop, a political scientist at Claremont McKenna College. "It also affects Corporate America. You see it in nonhierarchical management, in workplace decentralization. America has fallen out of love with giantism."

True enough. But populism has its ugly side. Often it has boiled over into nativism and xenophobia. Examples include the anti-Semitism of

GEORGE'S MESSAGE



JESSE'S MOVE

populist leader Tom Watson at the turn of the century, Father Coughlin's Nazi sympathies, and George Wallace's race-baiting. Gingrich himself tiptoes to the edge of the populist abyss when he labels Democrats "the enemy of normal Americans."

That's why University of Chicago sociologist William Julius Wilson warns that, unchecked, populist tension could threaten the social fabric. Economic insecurity makes people "very vulnerable to demagogic messages," he says. "They turn on each other, race against race."

Crafting sound policy that can sidestep such divisions will be tricky because to keep legitimate public frustration from turning into inchoate rage, the political system needs to move rapidly on a populist reform agenda. The Republicans' drive to cut Hill staffs and make Congress abide by the laws it imposes on others was a start. But the GOP Contract ignores such initiatives as campaign-finance reform or curbs on lobbyists.

PULLBACK TIME?
Populists of various stripes say the end of the cold war provides a chance for the U.S. to abandon internationalism and focus on domestic ills

"The Contract has surface reforms, but no political reform agenda," says John Kuzenski, a Vanderbilt University political scientist. "Republicans can get away with it because of the shortsightedness of the American voter."

Populist suspicion also imperils America's place in the global economy. In the wake of the Mexican meltdown, it's clear that business and political leaders need to do a better job explaining the workings of reciprocal trading pacts to the public. Says David N. Farnsworth, a Wichita State University political scientist: "Someone has got to get the message across that trade agreements are beneficial to the U.S., or the spread of these agreements will halt."

There are even doubters who question whether the New Populism will be around long enough to get much done—good or bad. Some Democrats, such as House Minority Leader Richard A. Gephardt (D-Mo.), feel their party needn't make wholesale changes because class warfare over such issues as capital-gains cuts for the wealthy will eventually rekindle support for liberalism.

Still others doubt that Third Wave Republicans are really committed to the reforms th many rank-and-file populists covet. They no that Gingrich's Progress & Freedom Foundati and GOPAC, his political arm, are underwritten corporate money—and that Gingrich has soug regulatory breaks for his business benefacto "This is tactical populism," scoffs Clinton polls Stanley B. Greenberg. "It's a ruse, because funded by corporate power." Adds former Tex Agriculture Commissioner Jim Hightower, a eral-populist radio host: "These are false populi as well as false prophets. Populists don't supp NAFTA, don't cut capital gains, and don't ha ties to Wall Street."

The political parties themselves bear resp sibility for spreading public cynici By pandering to voters with such compatible notions as a balanced bu get, protected seniors, a defense bu up, and middle-class tax cuts, they eroded the credibility of American p itics. Ultimately, that builds supp for a Third Force ticket headed by tired General Colin L. Powell or other would-be savior lionized for complete lack of political involveme

"People think government is br and can't be fixed," says Robert Denton, chairman of the commun tions department at Virginia Polyte nic Institute. "That means a politici honeymoon is very short, and it creases the likelihood of third-pa challengers."

RESTORED BALANCE? Although Am ca is being buffeted by New Popu protests, the future doesn't have lead to political fragmentation. W the exception of the Civil War, the g ius of the American system has been its ab to defuse populist anger before it explodes.

For example, the People's Party's agenda a absorbed by Bryan's Democrats in 1896. Great Commoner's minions didn't get their v for the free coinage of silver. But their pro led to regulation of railroads and monopoly p er, helped speed reforms such as the sho work week, and advanced universal suffrag

Things looked equally bleak in 1948, wh weak and battered President Harry S Tru confronted the economic turmoil uncorke the end of World War II. Beset by a strong challenge from Thomas Dewey, a left-wing i gency from Henry Wallace's Progressives, a right-wing revolt by Strom Thurmond's D crats, both Truman—and American poli stability—looked like goners. Both survived

Equilibrium can also be restored to these gry times. But for that to happen, represe tives of both parties have to get beyond s neering, head out to such places as Wichita, do the thing that politicians do worst: Liste

By Lee Walczak, with Susan B. Garland Richard S. Dunham, in Washington, Ric A. Melcher in Chicago, Robert D. Hof in Francisco, and bureau reports

The BUSINESS WEEK/Harris Poll is on pag

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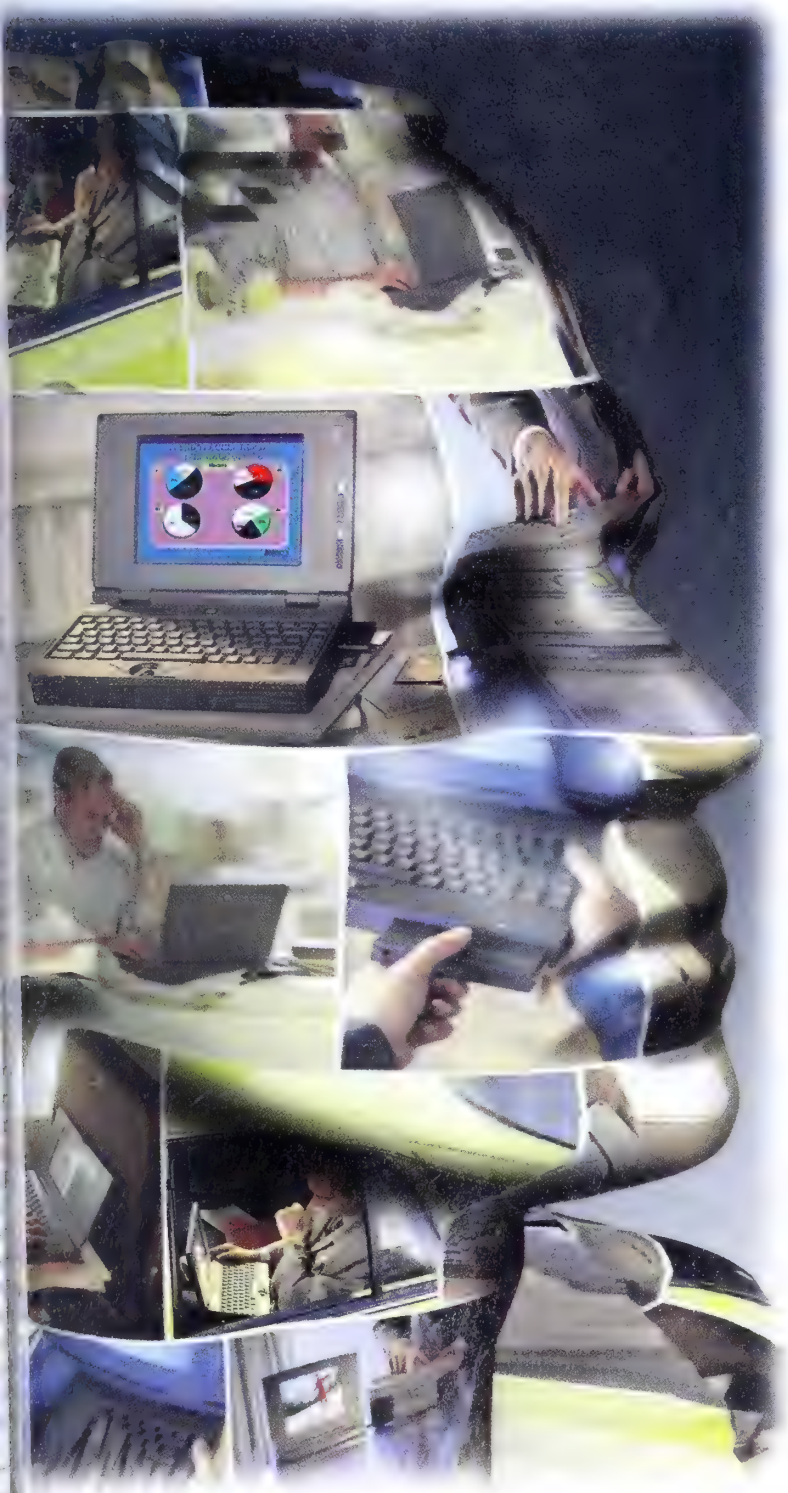

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PORTRAIT OF AN ANXIOUS PUBLIC

Cover Story

Watch out, bureaucrats. Americans are gloomy about their prospects and gloomy about the role of government in their lives. Most think the American Dream is slipping out of their grasp—and they know whom they blame. Fully 73% think that government spending is at fault for stagnating incomes, and 61% cite high taxes. And the public has scant confidence in those running government institutions. The feds come in dead last, with only 8% of the public expressing a great deal of confidence in them. Folks in state and local governments don't fare much better, at 9%. The heroes here are entrepreneurs, who come in at 42%.

It's also a good time to be an outsider. Colin Powell takes the No. 1 slot, winning the approval of 74%. Newt Gingrich, by contrast, comes in at No. 6, with 38%. There's a pleasant surprise for Bill Clinton: He comes in second, with 54% expressing approval of the President.

WHO'S REPRESENTED?

In general, does the U.S. government usually represent interests of the American people or the narrow concerns of special-interest groups?

Represents American people	30%
Represents special interests	63%
Not sure	7%

WHAT ABOUT THE KIDS?

Do you expect your children will have a better life than you have had, a worse life, or a life about as good as yours?

	1995	1989
Better life	46%	59%
Worse life	20%	10%
About as good	27%	25%
No children	6%	0%
Not sure	1%	6%

THE AMERICAN DREAM—NOW...

For most Americans, do you think the American Dream of equal opportunity, personal freedom, and social mobility has become easier or harder to achieve in the past 10 years?

Easier to achieve	31%
Harder to achieve	67%
Not sure	2%

...AND IN YEARS TO COME

And do you think this American Dream will be easier or harder to achieve in the next 10 years?

Easier to achieve	22%
Harder to achieve	74%
Not sure	4%

FAITH IN INSTITUTIONS

As far as people in charge of running each of the following are concerned, would you say that you have a great deal of confidence, only some confidence, or hardly any confidence at all in them?

	A GREAT DEAL OF CONFIDENCE	ONLY SOME CONFIDENCE	HARDLY ANY CONFIDENCE	NOT SURE
Small businesses	42%	47%	10%	1%
Religious institutions	24%	50%	23%	3%
Big businesses	19%	51%	28%	2%
The news media	15%	49%	36%	1%
Republicans in Congress	13%	51%	34%	2%
Hollywood and the entertainment industry	13%	39%	44%	4%
Democrats in Congress	11%	51%	36%	2%
State and local government	9%	60%	29%	2%
Labor unions	8%	47%	41%	4%
The federal government	8%	53%	39%	0%

STAGNANT INCOMES

Government statistics show that incomes for many working Americans have stayed flat for 15 years. Would you say that each of the following is a major reason, a minor reason, or not a reason at all for the phenomenon?

	MAJOR	MINOR	NOT A REASON	NO SUR
Increased government spending	73%	17%	8%	2
High taxes	61%	28%	9%	2
The decline of the manufacturing economy	56%	34%	8%	2
Increasing global competition	52%	33%	12%	3
Excesses of Big Business and Wall Street	44%	39%	12%	5
Declining membership in labor unions	24%	42%	29%	5

INFLUENCE PEDDLING

How important is it for Congress and the White House to limit the lobbying and campaign contributions of industries and advocacy groups?

Very important	59
Somewhat important	31
Not very important	5
Not important at all	5
Not sure	0

SERVICES FOR IMMIGRANTS

California voters approved Proposition 187, which restricts state-provided social services to illegal immigrants. Would you favor or oppose such an initiative in your state?

Favor	60
Oppose	37
Not sure	3

AFFIRMATIVE ACTION

Would you favor or oppose a law limiting affirmative-action programs in your state?

Favor	51
Oppose	38
Not sure	11

LOOKING FOR LEADERSHIP

Do you approve or disapprove of each of the following?

	APPROVE	DISAPPROVE	NO SUR
Retired General Colin Powell	74%	14%	12
President Bill Clinton	54%	42%	4
Reverend Jesse Jackson	46%	48%	6
Independent Ross Perot	45%	50%	5
House Minority Leader Richard Gephardt	43%	33%	24
House Speaker Newt Gingrich	38%	48%	14
Retired Colonel Oliver North	35%	58%	7
Former California Governor Jerry Brown	35%	45%	20
Radio talk-show host Rush Limbaugh	34%	55%	11
Political commentator Pat Buchanan	33%	45%	22
Television evangelist Pat Robertson	25%	60%	15

Edited by Michele Galen and Mark N. Vamos

Survey of 1,249 adults conducted Feb. 16-19, 1995, for BUSINESS WEEK by Louis Harris & Associates. Previous survey was of 1,250 ad conducted Aug. 25-29, 1989. Results should be accurate to wi 3 percentage points.

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BRAIN DRAIN: *A wave of defections has hit the ban*

BANKING

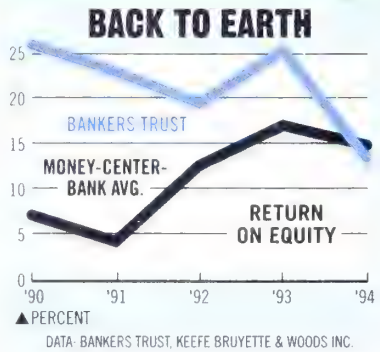
WHAT IS BANKERS TRUST WAITING FOR?

Since last year's scandals, change has only been skin-deep

Few banks in recent years have been forced to endure the humiliation that has rocked Bankers Trust New York Corp. Long regarded as extremely shrewd, innovative, and aggressive, Bankers was hit last year with scandals involving its sales of derivatives and several client lawsuits charging unfair sales practices and deception. Most tellingly, it was accused of putting its own interests ahead of its customers'. The bank is known for its ability to effect broad organizational shifts, and many observers predicted that Bankers would soon stage a major offensive to restore its reputation.

So far, though, Bankers has done little. Chairman and CEO Charles S. Sanford Jr. has publicly stated that Bankers will change its ways, particularly focusing less on transactions and more on client relationships. Yet the only concrete changes are a couple of new senior management committees on clients and internal controls and some cost-cutting. A bank spokesman says no major reorganizations are in the offing. Meanwhile, Bankers' performance has suffered. Return on equity dropped to 13.5% from 26.3% in 1993. The consequence: The bank is saddled with plummeting employee morale, a wave of defections, and rumors of looming staff cuts, even at senior levels.

The dearth of change to date leaves Bankers looking shell-shocked and un-



sure of how to move beyo its problems, market sourc say. Raphael Soifer, a ban ing analyst at Brown Brot ers Harriman & Co., says can see no reason why Ban ers would delay or cancel ganizational changes. "Th need to do something to co vince the outside world well as themselves that t type of problems they've h are unlikely to recur," says. Adds one money-ce ter banker: "The percepti is that the whole reputati al issue has paralyzed the

An ongoing talent drain Bankers' most visible pr lem. Thanks in part to l morale, Bankers is losing number of its most talen people. The tally for Feb ary is startling: Most recently, a grou four top equity derivatives speciali left the bank's London office. Include the bunch is William E. Sproul, a man ing director in the group who had b head of equity derivatives risk mana ment. Nearly 20 emerging-markets s cialists bolted for Donaldson, Lufkin Jenrette Securities Corp., including N Allen, head of Bankers' Latin Ameri businesses. And in a blow to the ban stated goal of focusing more on relati ships, Jerome Powell, head of merg and acquisitions—and one of the ban top relationship-banking types—left join Dillon, Read & Co., where he sp much of the 1980s in the same capac A spokesman says that even amid departures, Bankers has been hir selectively.

CALIFORNIA PASS. Current and for employees say there are many mor Bankers who would like to leave. H ever, because firms all over Wall St are cutting back or delaying new h after a lousy 1994, Bankers' employ looking for new jobs face unusually tense competition for what openi there are, particularly in the der tives area. "We're seeing résumés f everybody," says Scott R. Page, p dent of executive recruiters Solon Page Group.

Bankers did seriously consider a r ganization this winter. But it dro the plan at a California meeting of eral dozen of its top executives a Allen and his group departed, to be lowed just days later by Powell. So es at Bankers say the bank may

ɔlding off in order to avoid reorganiz-
g around staff who may be in the pro-
ss of leaving. A bank spokesman de-
nes to give a reason for the change in
ans, although he says it was unrelated
staff defections and that "the basic
ısiness strategy is in place. It's one
at's a demonstrated success."

Certainly, Bankers is capable of major
structuring. In the 1980s, the bank
ansformed itself from an also-ran New
rk money-center to a trading power-
use. But Bankers' most visible step so
on the road to a rebound has been
e creation of two new senior manage-
ent committees.

An internal memorandum describing
e committees is optimistic. The client
nmittee is billed as a new group "be-
established to promote and oversee
renewed emphasis on our client re-
ionships." A second committee,
ɔbed the control committee, will "pro-
te a stronger control attitude in our
ture . . . [and] oversee all of the units
t provide checks and balances to our
siness lines." The staffing of these
nmittees with many of the most sen-
executives at the bank means they
ld eventually have real clout.

NY SKEPTICS. Word of the new com-
tees has been greeted internally with
ne skepticism, however. Current and
ner employees say these committees
simply new versions of groups that
e formed when business was slow
forgotten when it picked up. The
k has launched initiatives before to
ease the focus on relationships—
re was one effort begun in late
3—but insiders say these efforts
lly changed things at all.

o far, Bankers has avoided major
f cuts, though worried employees
speculating that as much as 10%
he staff could be eliminated if capi-
narkets activity does not pick up. A
k spokesman says an expense-
ıction program is in place, and while
arget has been set, each business
is expected to come up with signif-
t staff cuts. But so far, the pro-
n appears to be focusing on pen-
nte items—lectures about the use
adio taxis, new controls on travel
entertainment costs—that, to some
loyees, belie the gravity of the
lems Bankers faces.

ew doubt Bankers' ability to eventu-
rebound from the derivatives mess.
y're not down for the count," says
rival. "They'll be back." One recent-
parted employee, asserting that he
s to keep his Bankers Trust stock,
the bank generally thrives when it
rceived as an "underdog." Its cur-
troubles will be a very good test of
theory.

By Kelley Holland in New York

COMMODITIES

ONCE AGAIN, COTTON IS KING

Foreign demand is pushing U.S. exports and prices sky-high

In mid-October, with cotton prices in the cash market at 65¢ per pound, Jackie D. Warren figured it was time to start selling. In the next few months, Warren, a cotton farmer in arid Lamesa, Tex., parted with nearly 3,000 bales as prices climbed, selling at 70¢, 75¢, and 84¢ a pound. When cotton topped 90¢ in February, he sold his last bale. "We thought, 'It can't go any higher,'" says Warren.

Boy, was he wrong. For the first time in generations, cotton is living up to its nickname: "White Gold." Prices have surpassed $1 a pound—the highest level since the Civil War. While most traders expect a short-term correction, many remain long-term bulls.

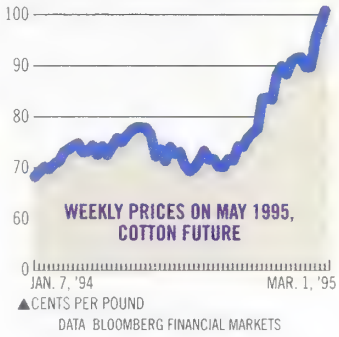
What has changed? Supplies have dwindled because of poor crops in China, India, and Pakistan. At the same time, consumers, undeterred by rising prices, have pumped up demand for cotton-rich casual clothing, as well as home furnishings made with cotton.

That has mills from Beijing to Birmingham scrambling to buy more of the fiber. Orders from China, India, and Pakistan will help push U.S. exports up 39% from a year ago, the U.S. Agriculture Dept. estimates. At that rate, very little of 1994's record 19.7 million-bale crop in the U.S. will remain in inventory, setting the stage for higher prices later this year, says Sandra L. Kaul, a commodity trading adviser in Palo Alto, Calif. In addition, Kaul expects cotton futures prices to approach $1.20 around May or June.

Consumers are starting to feel the pinch. Sara Lee apparel, Fruit of the Loom, Fieldcrest Cannon, and West-point Stevens are among companies raising prices on a host of cotton goods by 5% to 8%. So far, that's not cooling consumer demand, which has propelled cotton's share of retail textile sales to 57%, up from 51% in 1990.

WHITE GOLD: A record crop

LIFT THAT BALE...



FUTURES FEST. The new status of cotton is most apparent at the New York Cotton Exchange. The once sleepy trading pit has become a hotbed of intrigue. Some 200 traders, twice the usual number, contend with market-squeeze rumors and bogus Asian crop reports as annual volume soars 30% from a year ago to more than 700,000 contracts. That pales next to the volume of financial-futures products, but it's enough liquidity to attract speculators into the trade-dominated market. With an 84% return, Cotton Trading Partners was the top-performing managed-futures fund of 1994. Assets in the $2.3 million fund continue to grow, says James S. Moore, general partner for the fund.

Meanwhile, open interest (the number of contracts on the books) for cotton futures and options has nearly doubled, reflecting the trade's need to lock in prices. Textile mills have been big buyers of call options, which give the right to buy at a set price in the future.

The record prices will encourage farmers to plant more cotton. And a repeat of this year's fine weather could bring another record U.S. crop—and lower prices. But if bad weather strikes, or if overseas crops are damaged, White Gold could shine even brighter this time next year.

By Greg Burns in Chicago, with Maria Mallory in Atlanta

PHOTOGRAPH BY BOB TOWER/BLACK STAR; CHART BY BOB DOYLE BW

INSURANCE

'CALIFORNIA IS OPEN FOR BUSINESS'

But will the new insurance czar's stance play with voters?

What a difference an election makes. For years, former California Insurance Commissioner John Garamendi had been battling 20th Century Industries, a leading insurer, all the way to the U.S. Supreme Court over state Proposition 103. Prop 103—roundly detested by the industry—is a 1988 voter initiative that limited insurance companies' rate of return and rebated to policyholders premiums deemed excessive. Although some companies gave in, 20th Century refused. But this year, when Garamendi's successor, Charles W. Quackenbush, approached 20th Century executives at a Los Angeles insurance-industry reception, they decided to hear him out. Within weeks, a deal was struck to settle the action.

"Quackenbush didn't have his time, his ego, and his lawyers wrapped up in this," says Richard A. Dinon, 20th Century senior vice-president. "His approach was more rational, more businesslike." Dinon is not alone in admiring the new commissioner's crusade to repair relations with insurers. Says David Schiff, editor of *Emerson Reid's Insurance Observer*: "Everybody loves him."

Well, not quite everybody. California's well-organized consumer-advocate community regards Quackenbush, a 40-year-old free-market Republican, as the enemy. They have attacked the former businessman and four-term state legislator for accepting $2.4 million in industry contributions to his election campaign. Almost constant bickering in local newspapers between Quackenbush and his nemesis, Harvey Rosenfield, author of Prop 103, has reached fever pitch. The criticism is getting to the 6-foot-4 former Army captain. "Please don't say I'm a friend of the industry," Quackenbush requests—an hour after telling a business group that the Rosenfield ruckus had him "sometimes wishing I had my tank back."

Quackenbush may not be an industry friend, but he's a lot more than an acquaintance. On Jan. 13, nine days aft his swearing in, he set the tone sending letters to 197 insurance co panies declaring: "California is open business, and we want you back."

Since then, Quackenbush, who h no insurance experience before his el tion, has approved earthquake-premi hikes of 100% and upward for two insurers. He has also vowed to remo the requirement that any outfit offer homeowners insurance in Califor must also provide earthquake covera

BATTLES LOOM. Consumer advoca are especially livid over the 20th Cen ry settlement, which Garamendi h self calls "a political payback." The d releases the company entirely fr interest accumulated on the $78 mill in rollbacks it is deemed to owe poli holders, but the deal does provide least $46 million to policyholders. Af the settlement was reached, Rosenf accused Quackenbush of costing consu ers $221 million, including $74 mil for the 20th Century settlement.

Yet to come are battles over 23 pe ing requests for rate increases and h to make insurers offer earthquake p cies. Opponents of Quackenbush's tempt to solve this problem by coupling homeowners from earthqu coverage say that market may dry u insurers are not forced to participat

Even if Quackenbush survives th slippery issues, he may still be der what he really wants: a more vigor insurance market. After 20th Cent settled with the Insurance Dept. dropped its lawsuit, the Supreme C upheld the Garamendi-designed P 103 regulations, dictating what Quack bush may do. And even insurers w out pending Prop 103 claims may slow to become more active in the n ket. Robert W. Pike, general counse Allstate Insurance Co. in Northbr Ill., says that even if the earthqu issues were resolved, Allstate w still want to reduce its overall parti tion in California's earthquake mar

Worst of all, Quackenbush, an speechmaker whose political ambit rival Garamendi's, may find that regulatory policies he hopes will m California "irresistible" to business quite resistible to voters.

Rosenfield says he wouldn't rule recall election. "[Quackenbush] undertaken to protect the insur companies at the direct expense of consumers," he says. "If this contin he won't be able to get elected catcher in this state." And the guy been in office only two months.

By Nanette Byrnes in Los An

A QUICK COURSE CHANGE

Chuck Quackenbush is overturning his predecessor's policy of playing hardball with insurers

JAN. 4 Quackenbush is sworn in as California insurance commissioner

JAN. 13 Sends letters to 197 insurance companies, saying "California is open for business" and assuring 37 of them that they have no Proposition 103 rollback liability

JAN. 18 Grants 100%-to-134% rate increases in Republic Insurance Group's earthquake insurance

JAN. 27 Forgives all accumulated interest and cuts a deal with troubled 20th Century Industries to pay $46 million

JAN. 27 Gives State Farm a 5.7% rate increase on homeowners' policies

JAN. 31 Grants a 100% increase in Allstate's earthquake premiums

DATA: *BUSINESS WEEK*

MEMO TO INSURERS: "We want you back"

HELFER WILL SOON HAVE TO CUT THE FDIC'S STAFF

GULATORS

VELCOME TO THE FDIC IS. HELFER

new chief is out to protect the agency's independence

he first thing visitors to Ricki Tigert Helfer's corner office at the Federal Deposit Insurance Corp. notice is gavel. More than three feet long prominently displayed on a coffee e, it was a gift from employees in FDIC's Irvine (Calif.) office last No- ber. "They said 'we don't think ll need it,'" the newly installed FDIC rman recalls with a laugh. "'But in case.'"

he Irvine employees have been . After winning a bruising 11-month rmation battle with Senator Alfonse 'Amato (R-N. Y.), Helfer has wast- o time in taking command. The FDIC res bank deposits and regulates y small banks. But historically, un- such chairmen as L. William Seid- the FDIC has been the most vocal regulator in sounding alarms when system has become imperiled. In it years, though, it has languished. d not have a permanent man for more than two s and almost lost its le when the Adminis- on proposed merging regulators. Helfer has it clear she is out to ct the FDIC's indepen- and restore its influ- "That was sorely need- says James A. Hansen, nan of the Conference ate Bank Supervisors. t reestablishing the FDIC as a major force is just one of Helfer's challenges. She urgently needs to shore up the undercapitalized fund that insures thrift deposits, which became an FDIC responsibility during the savings and loan debacle. The fund is at $1.8 billion, far below the $8.5 billion target set by Congress in 1989. One big thrift failure could wipe out the fund.

MENDING FENCES. The bank insurance fund, by contrast, has plenty of money, and the FDIC board, led by Helfer, has proposed cutting bank insurance premiums by 83%. Thrift executives warn that move could prove disastrous because it would leave thrifts at a severe competitive disadvantage and ultimately weaken the thrift insurance fund.

Another big challenge will be mending fences on Capitol Hill. Already, congressional critics are attacking Helfer's proposed bank premium cut, contending the FDIC is underestimating the impact on the thrift fund. "Her handling of the [bank and thrift insurance fund] issue will be a critical test," says D'Amato, who first supported her nomination but then reversed course. D'Amato has questioned whether Helfer had contacts with the White House about recusing herself from Whitewater matters, and Senate sources warn that Helfer will be called before the Banking Committee to answer questions about any such contacts.

Helfer also faces a managerial challenge: A rapid slowdown in bank failures is forcing the FDIC to get slimmer, a prospect Helfer terms "sad and difficult." She must slash the FDIC payroll while folding in nearly 1,400 Resolution Trust Corp. employees when that agency, which handled the S&L cleanup, goes out of business at yearend. "I don't envy her that job," says former FDIC Chairman William M. Isaac. Last November, she met with two senior executives from Chemical Banking Corp. to learn how they handled merging operations with those of Manufacturers Hanover.

Helfer's roots are far from the world of banking and politics. Raised in Murfreesboro, Tenn., she attended the University of Chicago Law School before arriving in Washington in 1977. She spent most of the 1980s in the international divisions of the U. S. Treasury Dept. and the Federal Reserve, and became an opera buff in her free time. Helfer married fellow Washington attorney Michael S. Helfer in January. The two met when Helfer coached the FDIC nominee for her confirmation hearing. She is known as a hard taskmaster who often works long into the night.

Not all Helfer's moves have won her praise. She recently took an indirect hit from Vice-President Al Gore. According to community activists, at a recent meeting Gore criticized the FDIC and the Federal Reserve for appearing to drag their feet on rewriting rules on bank lending in low-income areas.

Helfer says she has supported those efforts, but adds: "People won't like everything a regulator does." As she has proven, though, Ricki Tigert Helfer hardly shrinks from a good fight.

By Amy Barrett in Washington

Getting the Job Was the Easy Part

Ricki Tigert Helfer has her share of challenges as FDIC chair

THRIFT INSURANCE FUND Helfer must get Congress to build up the $1.8 billion fund insuring thrift deposits, which is severely undercapitalized. One big S&L failure could wipe it out.

CAPITOL HILL She must revitalize her weakened agency. And she must mend fences with Senate Banking Chairman Alfonse M. D'Amato (R-N. Y.) who opposed her confirmation.

RESOLUTION TRUST CORP. With the RTC set to go out of business by the end of 1995, the FDIC must absorb 1,400 of its employees. And she must cut FDIC employment by 10%.

BANK LENDING With competition fierce among lenders, the FDIC must watch out for weakening credit standards.

DATA FDIC, BUSINESS WEEK

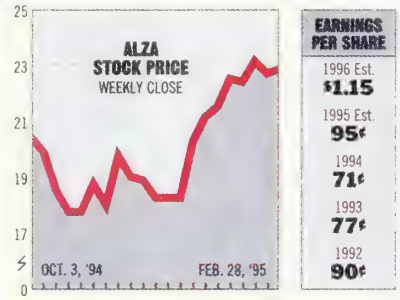
BY GENE G. MARCIAL

ALZA MAY GET SWALLOWED UP

Far from abating, the takeover pace in the drug industry is gaining momentum. Germany's largest chemical and pharmaceutical company, Hoechst, announced on Feb. 28 that it was in talks to acquire Marion Merrell Dow. The inevitable question: Who's next?

What some takeover pros have started buying quietly is Alza (AZA), a leader in controlled-release, drug-delivery systems. Several strategists specializing in takeover stocks are convinced that a major drug company is interested in acquiring Alza, which makes a broad range of therapies sold by the big drugmakers under licensing agreements. Some analysts dismiss the rumor that Alza is for sale. "The company's strength is its independent marketing alliances," says Richard Vietor, a first vice-president at Merrill Lynch. Alza would be in danger of losing those links if it were acquired by a rival, he explains.

SWEETENED PILL



▲ DOLLARS

DATA: BLOOMBERG FINANCIAL MARKETS, NELSON PUBLICATIONS INC.

Nonetheless, "a major pharmaceutical house that enjoys such a pact is, in fact, interested in owning Alza," asserts one New York money manager who has been buying shares, currently trading at 23.

He thinks this drugmaker will offer 35 a share for Alza, which hit a high of 50 in 1992, when it posted earnings of 90¢ a share on revenues of $229 million. Results have weakened since then and driven the price down.

Alza has a pact with Pfizer, with which it developed Procardia XL for treating angina and hypertension. Royalties from Pfizer generated by this drug account for 35% of Alza's revenues. It also has a pact with Marion Merrell Dow on Alza's Nicoderm, an antismoking skin patch. Royalties from Marion produce 10% of the revenues. In addition, Alza has a deal with Britain's Glaxo Holdings to market Volmax, an asthma treatment. Johnson & Johnson has the license for Alza's Duragesic, a drug used to manage severe, chronic pain.

The drop in the stock price is just one reason Alza has become attractive, explains one arbitrageur. The potential buyer, he argues, wants some of Alza's technologies, including the transdermal patches and OROS osmotic tablets for precise, controlled release.

Some analysts believe Alza is in a turnaround. Herman Saftlas of Standard & Poor's sees earnings of 90¢ a share this year. The long-term prospects, he says, are enhanced by Alza's "impressive R&D pipeline," which includes more than 60 products in various stages of development. Alza officials were unavailable for comment.

SUNDSTRAND: SET FOR LIFTOFF?

Crimped military spending has kept aerospace stocks from flying high. But that's just dandy for some daring investors, who have been snapping up Sundstrand (SNS), a maker of aircraft and aerospace components. The shares, trading in the mid-50s last summer, are down to 45, in part because of disappointing earnings.

Even so, the stock has been inching higher of late, notes one technical analyst. It appears to be "on the verge of breaking out," he says.

That's probably due to heavy buying by some big players, including investment manager John Levin, who has accumulated 5.2%. Others who own large Sundstrand stakes include Oppenheimer Capital, with more than 9% of the stock; Capital Research & Management, with 7.7%; and RCM Capital Management, with 5%.

"Levin wants Sundstrand to look for ways to maximize the value of its stock," says Charlie LaLoggia, editor of the *Special Situation Report* in Rochester, N.Y. Levin believes the assets are worth considerably more than the current price of the stock, says LaLoggia, who pegs Sundstrand's value at 55 or more in a takeover. Levin's position appears to put Sundstrand "in play," and that's probably why the stock's trading pattern is starting t turn very bullish, adds LaLoggia.

Sundstrand could spin off som assets or merge with a larger comp ny. Sundstrand and Levin decline comment.

RESOLUTE ON LTV

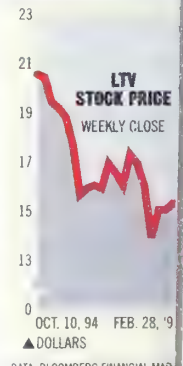
Who's afraid of the cyclicals? Ce tainly not investment manag Steve Leeb. In spite of the Street continuing skittishness toward ste producers, carmakers, and othe whose fortunes are tied to the econ my's swings, Leeb remains bullish.

"Valuations in these sectors are low that it seems like investors a expecting an economic calamity," sa Leeb, editor of *Personal Finance* Alexandria, Va. But since he's co vinced the economy isn't in any dang of swooning into a recession, Leeb h been buying heavily into cyclicals.

Among them is LTV (LTV), whi emerged from Chapter 11 in 1993 aft reorganizing and paying off $6 billion creditor claims and $3 billion in pensi liabilities. LTV has since become t second-largest supplier of flat-roll steel to the auto, appliance, and elect cal-equipment industries. LTV also su plies equipment to the oil industry.

Why pick LTV? Leeb expects st prices to jump worldwide because increasing demand in Europe, As and Latin America. The enhanced mand could result in LTV earnings of more than $4 a share in 1996 and in excess of $5 in 1997, up from an estimated $2.50 this year, he says.

WATCHING FOR ORDERS



DATA: BLOOMBERG FINANCIAL MAR

The stock, now at 15, is very cheap, maintains Leeb: It trades at less than twice the estimated 1996 cash flow of $7.50 a share, and less than three times projected 1997 earnings.

As a low-cost domestic producer, is well positioned to weather any to times ahead—should they come aro again, notes Leeb. Over the next years, he sees the steelmakers' st climbing to 35.

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STEEL

THE BRUTAL BRAWL AHEAD IN STEEL

How many minimills is too many? The industry will soon learn

In a former tobacco field in Kentucky, an unlikely corps of college-educated steelworkers is experimenting with $360 million worth of new machinery. Even before the roof of the mill is completed, they're sending two-inch-thick slabs of Canadian steel through a furnace as long as a football field, and from there through five sets of huge presses, known as rolling mills. By the time the electric furnace is ready, probably by early April, brand-new Gallatin Steel Co. will start melting scrap and converting it, in three short hours, into coils of flat-rolled steel—a basic component of cars, pipes, and appliances.

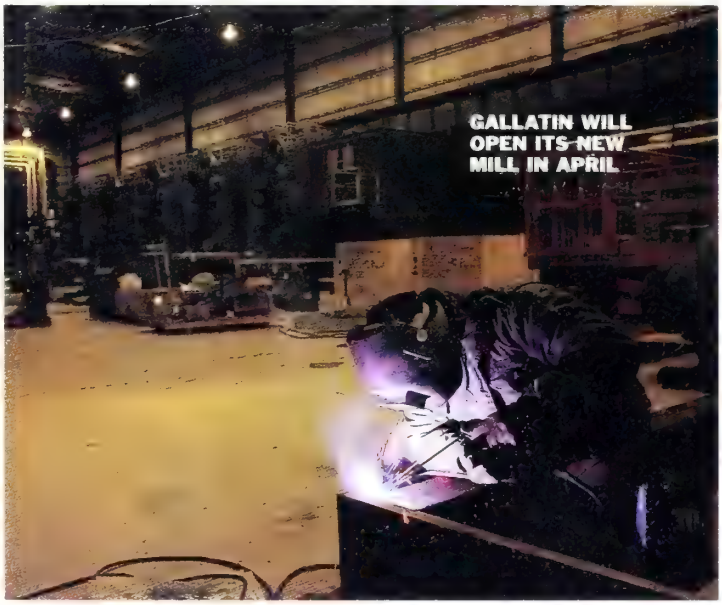
Nearly as soon as the mill begins to operate, President Milan Kosanovich says he'll be pressing his board to double capacity, to 2.4 million tons per year. Why the hurry? Nipping at Gallatin's heels are a host of new steel companies, from Pittsburgh to Iowa, most of them targeting the same flat-rolled markets. Kosanovich wants to nail down customers fast. "It's absolutely imperative that we have it operational before the new mills come on stream," he says.

This is the race of the Nucor look-alikes. Six years after the minimill giant pioneered a low-cost German technology in Crawfordsville, Ind., the competition is finally gearing up its own flat-rolled mills. Gallatin is first. But coming early next year is Steel Dynamics Inc., a startup run by former Nucor Corp. managers in Butler, Ind. North Star Steel Co. is planning one for Ohio. Even steel's No. 3 player, LTV—along with partners British Steel and Sumitomo—is jumping into minimills. By 1998, some 10 new projects should add from 10 million to 20 million tons per year of flat-rolled steel, raising U.S. capacity by as much as 40%. "It's going to be a crowded place [by 1997]," frets Kosanovich.

All this new capacity should turn the U.S. into the undisputed cost leader of the world. But for the players, the crowded market poses countless challenges. First, they'll be bidding against one another for the same scrap, which could ratchet up the cost of their key raw material. At the same time, they'll be selling millions of new tons, which could drive down prices. And many will be coming online just as demand is expected to wane. To escape the brutal commodity market, where Nucor reigns supreme, they're all planning to push into pricier niches—something that's never been asked of the Nucor technology. And many of them, including Gal tin, are planning to do this with a wo force that has no experience operati flat-rolled minimills. "Sometimes," sa Kosanovich, "I'm in awe of what we about to do here."

Not to mention what they face. Wh the construction of the Nucor look-alik proceeds during America's biggest st boom in 20 years, the last mills will open in 1997, just as the industry is pected to take a cyclical dive. Accord to PaineWebber Inc.'s Peter Marc steel should be entering into a "de spiral" by then, with plummeting pri only exacerbated by the millions of n cheap tons from the minimills. Chairman David H. Hoag predicts t the new mills will simply replace r lions of tons of imports. "That's w creates the opportunity," he says. even if the minis find a market for th steel, margins will likely be razor-th

This is a worrisome prospect for highly leveraged mills. For while of the new minimills, including Gall and LTV Corp.'s Trico Steel Co., powerful corporate parents, others growing from a wave of financing t betting on the next Nucor. It bega 1993, when a trio of Nucor mana quit the company to pursue their startup, Steel Dynamics. Within months, the group had raised $400 lion, mostly in debt. A similar ven near Pittsburgh, WorldClass Steel is closing in on $450 million, with banks lending the most. "You wou believe how many entrepreneurs me, saying, 'I want to build a mill,'" says David Stickler, a partn investment banker McDonald & Co curities Inc., in Cleveland, who r



HOT METAL

Steelmakers are spending $4 billion on minimills to make flat-rolled steel for aut appliances, and other markets, adding 18 million tons of new capacity by 1998

COMPANY	NEW CAPACITY MILLIONS OF TONS	LOCATION	STARTU
NUCOR	2	Arkansas, Indiana	1994
GALLATIN STEEL	1.2*	Kentucky	1995
ARMCO	1	Ohio	1995
STEEL DYNAMICS	1*	Indiana	1996
ACME METAL	1*	Chicago	1996
WORLDCLASS STEEL	1	Pennsylvania	1996
IPSCO	1	Iowa	1996
TRICO	2.4	Southeastern U.S.	199
NORTH STAR/BHL	1.2*	Ohio	199
WORTHINGTON	1*	undecided	after '

*Capacity will be doubled in second phase

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$370 million last year for Steel Dynamics. But now, says Stickler, "the question is, how much is too much?"

To pursue the premium markets, the new minimills will need perfect surface quality. The thin-slab casters, made by SMS of Düsseldorf, Germany, oscillate gently to keep the liquid steel flowing smoothly through funnel-shaped casters, without sticking. This sometimes scars the metal's surface. While working to refine the process, Nucor has simply staked out its turf in the low end of the market, where an occasional blemish doesn't matter. But to push downstream from Nucor, the newcomers will have to perfect the technology—a tall order for rookies—and meet the exacting demands of makers of autos and appliances. Gallatin is responding to the challenge by filling half its workforce with college-educated steelworkers.

With this in mind, several of the new mills are taking a step back from the German thin-slab casters. WorldClass Steel, the Pittsburgh startup, is buying a medium-slab mill from Tippins Inc., the only U.S. mill supplier. This mill, designed for niche hunting, produces the steel more slowly but promises more choices in grades, gauges, and alloys. The LTV and North Star joint ventures are likely to order similar mid-size casters from Japan's Sumitomo Corp. "It gives us more flexibility," says North Star President Robert Garvey. But Gallatin's Kosanovich says the medium-slabbers are adding costs without guaranteeing quality. "Those guys are in never-never land," he says.

LONG RACE. Sound like they're tussling now? Wait until they start battling for scrap. The crucial raw material for minimills has doubled in price in the past two years. With all the new minis threatening to add to the crunch, mills are hunting for scrap substitutes. Gallatin is buying pig iron from Russia. Qualitech Steel Corp., a Cleveland startup, plans to build an iron carbide plant, like Nucor's, which is just gearing up for production in Trinidad. British Steel PLC is importing iron-substitute technology from Scotland. This means the new mills will likely be competing with new technology not only to produce steel, but also to come up with iron.

In this race, everyone's focused on the next downturn. If the newcomers produce premium steel, they could turn the slump into hell for the higher-cost integrated producers. But if they fail, look for a brutal price war at the bottom of the market. "The death spiral won't shake us out," vows Kosanovich, who promises to be a low-cost producer. But a whole gaggle of other new steel companies has exactly the same idea.

By Stephen Baker in Pittsburgh

COMEBACKS

STEVE WOLF'S SOFT LANDING

Ejected from United, he's now Air France's turnaround gu

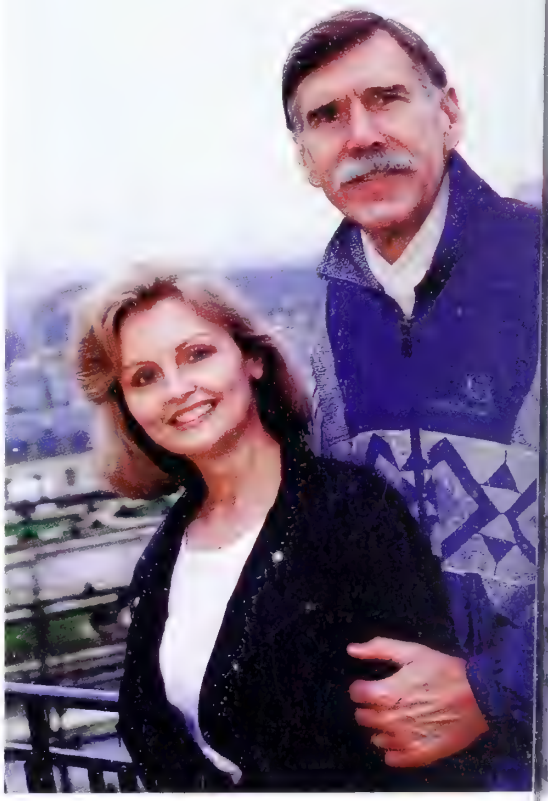
Stephen M. Wolf is in heaven. His biweekly round of Paris meetings is over, and it's time for a more spiritual endeavor—dinner at Laurent, one of the few Parisian temples of gastronomy at which he has never worshiped. Wolf, the former chairman of United Airlines Inc., already knows what he'll order. He had the menu faxed to his Chicago home a week ago. He wanted the wine list, too, but the restaurant balked because it's so long. Like his wife, Delores, Wolf adores food. "I could spend half the day wandering through Paris fish and produce markets," he says.

At 53, this workaholic airline veteran has the time—and money—to indulge such passions. Last July, Wolf was booted from United after employees bought control of the once struggling carrier, which he had whipped into shape during an autocratic six-year reign. United says Wolf left with cash and stock options worth some $10 million, an annual $240,000 pension to begin when he's 56, and an unspecified retirement payment.

Now he has landed what many forced retirees would consider a dream job. He has become a part-time turnaround guru at Air France—arguably the world's most backward big airline. The lanky, red-suspendered California native has an office wedged between those of the airline's chairman, Christian Blanc, and its president, Rodolphe Frantz. Every two weeks he flies to Paris to meet with both. In between, he's helping to negotiate an alliance American Airlines Inc. that could re in a new global air powerhouse.

A key ally in Wolf's effort is Ral Gangwal, formerly United's plann chief. Wolf persuaded the route-struc ing whiz to join Air France as an e utive vice-president in December. one of the state-owned carrier's top jobs could go to a foreigner—and who, like Wolf, speaks no Fren seemed unthinkable. "I thought Ste phone call was a joke," recalls the dian-born Gangwal. "Advising is thing, but being a full-time execu at a French airline is very differen

Yet Wolf and Gangwal have fome



FRANCOPHILES: *Delores and Steve Wolf in Paris*

emarkable American revolution at an line analyst Kevin C. Murphy of Mor- n Stanley & Co. calls "a flying bureau- icy." The French government, tired of mping subsidies into Air France, longs privatize it in a few years. So Wolf l Gangwal have apparently been set e to shake up its inefficient ways.

They have killed orders for planes l dropped routes that brought pres- e but no profit. Soon, 60 employees of American Airlines consulting subsid- y will spend 18 months in Paris, hired Wolf and Gangwal to organize a eld-management" system that will gle fares daily to optimize revenues.

RTE BLANCHE. Insiders say Gangwal begun talks with Boeing Co. and bus Industrie on a deal to buy all ies from one maker in return for deep counts. Traditionally, Air France has t orders between the two and bought e or two of everything," says an insid- Wolf and Gangwal hope to standardize fleet around a few models.

'roud Air France is trying to play n this American presence. Blanc n't discuss Wolf's role. But the chair- n, who ran the Paris subway system had no airline experience before join- Air France 16 months ago, seems to e given the pair carte blanche. In telling move, authority to schedule its, which Blanc decentralized among five regions in September, has been recentralized in Paris at Gangwal's urging. One insider says some employees grumble that "*les américains* are taking over."

But many others are delighted to see outsiders forcing efficiency on the airline, which has lost more than $3 billion since 1990. Europe will deregulate airlines in 1997, and Air France, its second-largest carrier, is far less efficient than British Airways, Lufthansa, and KLM. Without major change, it could even collapse. Says Pilot Geoffroy Bouvet: "It's amazing how quickly [Wolf and Gangwal] are dealing with our problems."

ROUTING WHIZ
Rakesh Gangwal is helping shake up Air France's "flying bureaucracy"

For Wolf, the stint in Paris offers a soft landing after his ejection from United. That's an episode he doesn't complain about, saying an employee takeover was "the best possible alternative." Many at United are happy he's gone. They thought him callous, obsessed with cost-cutting, and fixated on personal loyalty. Says a former executive: "It was a pretty unpleasant place to work."

Can part-time consulting satisfy a man who thrived on 18-hour days at the helm of a major company? After United, says Delores, "I thought he'd last about 30 days" before taking one of several offers to run other companies. To her surprise, "Stephen is enjoying himself." But she fears he'll grow restless once the couple has finished a current project: building a stone-and-brick house on farmland in Middleburg, Va. In April they'll move in, along with their French wines—to be housed in an 1,800-bottle cellar—and Steve's collection of antique Jaguars.

But his golden handshake is bringing angst as well as comfort: Wolf says he's unsure about his future. He wants to enjoy himself, because "life is a one-time event, and all I've ever done is work." At 15, he loaded boxcars to support his mother and two sisters after his father left. In 1966, he began a 15-year stint at American Airlines, then went on to save Republic Airlines Inc. and cargo carrier Flying Tiger Line Inc. But he misses the "camaraderie and structure" of a job and might take on another company.

Whatever happens, the Wolfs intend to spend lots of time in France. They may buy a Paris apartment and a house in Provence. Originally, Delores was the Francophile. As a human resources vice-president at American, where she and Steve met, Delores became intrigued with France while reading Proust and subsequently learned the language. Steve was converted after a gastronomic epiphany at a country restaurant near Lyon eight years ago.

So far, menus are the extent of his French. He speaks English with Blanc and Frantz during their four-hour Monday meetings and during his Tuesday *tête-à-tête* lunches with Blanc. Gangwal sits through meetings with an interpreter at his side.

That hasn't impeded their drive for change. Recently, Gangwal, despite opposition by regional managers, dumped 11 destinations—among them Quito, Khartoum, and Bahrain. He's switching planes to busier routes, including Bangkok and Buenos Aires, where more frequent flights lure high-fare business travelers. Cutting less popular routes has improved plane utilization, enabling the carrier to cancel $500 million in orders from Boeing and Airbus last month.

SECRET WEAPON. Both Gangwal and Wolf are in on talks to forge an alliance with American. While at United, Wolf tried to enlist Air France as a global partner to "code-share"—coordinate connecting flights and list them jointly in reservation systems as if the partners were one. But when Air France stalled, he teamed up with Lufthansa. Now, Air France is Europe's only big carrier without a U.S. partner—just as only American lacks a European ally. Paris sources think American will sign with Air France this spring. American won't comment. But Wolf is also talking with United.

Wolf's role is clearly a plus for Air France. Because of his record in turnarounds, says Gangwal, "he brings a halo effect" that makes potential foreign partners more comfortable.

The image of a halo over Steve Wolf might be tough for his critics at United to conjure. But in Paris, he's regarded as a secret weapon for change. Before Air France is soaring, its American adviser can look forward to lots more gourmet meals at posh Paris eateries.

By Stewart Toy in Paris, with Gary McWilliams in Houston and Susan Chandler and Kevin Kelly in Chicago

Highlights Of Steve Wolf's Résumé

1966 Joined American Airlines as management trainee.

1981 Joined Pan American World Airways as senior vice-president for marketing.

DECEMBER, 1982 Named president and chief operating officer of Continental Airlines. Resigned September, 1983.

JUNE, 1984 Named president and CEO of Republic Airlines.

AUGUST, 1986 Named chairman, CEO, and president of Flying Tiger Airlines.

DECEMBER, 1987 Named president and CEO of Allegis, later UAL, and its United Airlines subsidiary. Resigned July, 1994.

AUGUST, 1994 Joined Air France as adviser.

SOFTWARE

WARDING OFF THE CYBERSPACE INVADERS

Internet crime is rising, but there are ways to reduce the threat

By now, you've surely heard of Kevin D. Mitnick, the notorious hacker who was hunted down and arrested by FBI agents on Feb. 15. His crimes: a string of network break-ins that included the pilfering of thousands of credit-card numbers from an Internet service provider and sensitive programs from a security expert's home computer. It was a chilling warning to the millions of consumers and corporations trying to do business in cyberspace. "The Internet is like a bad neighborhood where a lot of people are looking for trouble," says Ray Ozzie, president of Iris Associates, which created Notes for Lotus Development Corp. "It's wild out there."

Network-related crime is not new—it has been going on as long as there have been networks. But as more individuals and businesses discover the Internet, the opportunities multiply. The Computer Emergency Response Team, based at Carnegie Mellon University, reported 2,241 Internet security breaches last year, twice as many as in 1993.

WELL POISONING. The good news is that, with a little planning, companies and consumers can usually protect themselves. And despite the headlines, the risk of attack by criminal hackers such as Mitnick may be greatly exaggerated. M. E. Kabay, director of education at the National Computer Security Assn. (NCSA) in Carlisle, Pa., contends that of all the damage estimated to be done to computer networks, only a small fraction can be traced to criminal hacking. The bigger danger, warns Kabay: careless employees who give away secret passwords or workers bent on sabotage.

Ask MCI Communications Corp. The Secret Service charges that Ivy James Lay, a technician in MCI's Greensboro (N. C.) facilities, programmed an MCI PC to capture more than 50,000 credit-card numbers. Before he was nabbed in September, Lay had sold the numbers to a network of dealers, resulting in more than $50 million in fraudulent charges. For MCI, the incident was "a real wa up call," says Robert E. Wilson, direc of technical security.

And while the idea of a hac like Mitnick marauding throu the Internet certainly gi business pause, it turns u that many of the comput he hit weren't well prot ed. "Many of the rec break-ins are a resulto leaving doors open," s William Finkelstein, v president in charge of rect-access financial vices at Wells Fa Bank. "If you leave bank vault open, pe are going to walk in their shopping carts."

Mitnick, for example, quently used The Well, a Francisco-based online ser that is linked to the Inter as a base of operation. Before was caught, he had cracked an count on The Well and stashed h dreds of programs there stolen f Tsutomu Shimomura, a security ex at the San Diego Supercomputer Ce He also wiped out some of the serv accounting records. "The Well re brought a lot of this Mitnick affai themselves through their cavalier tude," says Winn Schwartau, execu director for security consultant I pact Inc. Schwartau knows: Last Mitnick hacked into his Well accou

The Well was lucky. Credit-card bers and subscribers' personal data stored, unprotected, on a main se But Mitnick did not tamper wit NetCom, a San Jose (Calif.) com

Protecting your Assets on the Net

FIREWALLS
Secured gateways that erect a wall between private networks and the Internet, keeping unwanted intruders out.

FILTERING PROGRAMS
Used with firewalls to prevent "spoofing," a ploy to gain unauthorized entry by masquerading as a trusted system.

ENCRYPTION
A method of scramb messages such as E or credit-card numb so they cannot be r cybersnoops.

Recent break-ins are a result of leaving doors pen. If you leave the bank vault open, people re going to walk in with their shopping carts"

at sells Internet access, wasn't spared. itnick was able to steal some 20,000 edit-card numbers that he later ashed on a Well account.

What can be done to safeguard comters connected to the Net? One of the ost basic steps a company can take is erect barriers, called firewalls, beeen internal networks and the Interit. Firewalls are dedicated computers nning programs that screen incoming ffic so only "trusted" computers can n entry. Firewall programs are availe—at prices ranging from a few thoud dollars to several thousand—from npanies including IBM, Digital Equipnt, and Trusted Information Systems, Glenwood (Md.) startup. After Mitk's arrest, The Well shut down for days to bolster security. One step: ving subscribers' credit-card informa- behind a firewall.

Firewalls, by themselves, are not npletely hacker-proof. Mitnick, for ince, used a technique known as prool spoofing to fool otherwise secure nputers into thinking he was an aurized user. By probing a remote comer, a hacker can glean information ut other trusted computers. Then, hacker masquerades as a trusted nputer to gain access, copy files, and n take control of a system.

OOF-PROOF. To crack down on spoofsoftware makers are designing "fil-" to guard against such tricks. Filcan make sure that a message that ears to come from a trusted system n internal network did not actually inate elsewhere. Filters also can k unauthorized outgoing messages, a hacker manages to seize control system he can't move on to other vorks.

irewalls and filters can defend your vork, but they do nothing to proinformation when it leaves your nputers to travel across the Inter- To safeguard credit-card informa- E-mail messages, or other sensitive , encryption is the best bet. The popular type of encryption is public key, which uses software "keys" to scramble and unscramble messages. Many software makers license patented public-key technology from RSA Data Security Inc. as the basic building block for security systems.

For now, however, most information sent over the Net is unencrypted and therefore vulnerable. A favorite trick of hackers is to secretly install on networks programs called "packet sniffers" that record the contents of packets of information as they cross the network. Packets include such goodies as passwords and user names, which can then be used to gain entry to a computer system or send out messages under another person's name.

One way to foil packet sniffing is to use one-time passwords. Since they are only used once, if a password is snatched off the Net—or exposed through carelessness—it cannot be used again to gain access. There are several methods for issuing one-time passwords, including password generator cards such as SecurID, which is sold by Security Dynamics. SecurID works by displaying a number that changes every minute based on a predefined algorithm. When a user logs on to the network, the server asks for the number currently displayed on the card's screen and compares that with the number it calculates the card should be displaying. If they match—and the user also provides a secret PIN number—he is allowed to sign on.

Formidable technology, to be sure. But it's humans, not machines, that cause the most damage. "Ninety percent of what we did was not through a hole in the system," says Bruce Fancher, a former hacker who now runs an Internet software company. Hackers do much better through "social engineering," a term that refers to all the scams they use to cajole passwords and other information from unwitting employees. "You need a lot of processes—some technical and some administrative—to deal with the people problem," says Vincent Cerf, senior vice-president for data architecture at MCI. "There is no magic in this." Yes, but there are plenty of tricks.

By Amy Cortese in New York, with bureau reports

ITICATION

ies to ensure that er of a message is aims to be. One : One-time passat can't be reused.

PERSONNEL POLICIES

The best defenses are screening technical hires and training employees to protect passwords and confidential data.

Fidelity Investment Challenge

LEADERS

Final • Closing Values as of 2/15/95

The conclusion of the Fidelity Investment Challenge competition was February 10, 1995. Our congratulations to all of you who enjoyed this event and found it challenging and informative. The Grand Prize winner was Jay M. Plisco of Cold Springs Harbor, NY with an equity value of $586,986. Jay wins the Eagle Vision TSi plus the $2,000 in cash.

Congratulations all who played and won. Other participants win cash, Fidelity OnLine Xpress℠ software and Market Master t-shirts for their performance. Thank you for your participation.

THE TOP 30 AMATEUR INVESTORS

Rank	Investor	City, State	Equity Value
1	Jay Plisco	Cold Spring Harbor, NY	$586,986
2	Richard Barron	Rockville, MD	$414,184
3	Henry Sodke	Austin, TX	$412,642
4	George Mergennov	Longwood, FL	$394,948
5	Gregory Spencer	Sarasota, FL	$391,263
6	Scott Motter	Bethlehem, PA	$387,625
7	Mike Gilfedder	Morristown, NJ	$385,546
8	David Swanson	Glenview, IL	$381,956
9	Mike Becich	Wexford, PA	$380,933
10	Robin Ashworth	Covington, KY	$378,337
11	Stanley Moore	Corvallis, OR	$376,670
12	Pete Elliott	Austin, TX	$375,640
13	Steven Butler	Ronkonkoma, NY	$371,302
14	Phillip Zogran	Stuart, FL	$368,214
15	Raymond A. Olsen Jr.	Ocean Grove, NJ	$364,240
16	William Craine	Clearwater, FL	$358,312
17	Eric Baird	New York, NY	$351,705
18	Shirley Lyter	Seattle, WA	$351,595
19	Robert Kratz	New Hyde Park, NY	$350,543
20	Anatoly Raklyar	Brooklyn, NY	$350,113
21	Gar Bernas	Framingham, MA	$349,829
22	David Bradley	Asheville, NC	$347,758
23	Aaron Edelheit	Athens, GA	$345,911
24	Alan Denner	Orlando, FL	$345,209
25	Richard Salmon	McLeansville, NC	$345,095
26	A. Robert Lawton	Wexford, PA	$343,386
27	William Miller	Murfreesboro, TN	$343,036
28	Pablo Alvarez Jr.	Hialeah, FL	$339,398
29	Jamie Weiss	Portsmouth, NH	$339,208
30	Charles Lechialo	West Newton, MA	$337,611

THE COMPETITION UP CLOSE

Average Portfolio Value	$245,809
Average Percentage Increase	-1.58%
Average Number of Trades Used	49
Portfolio Value of the 100th Ranked Account	$306,664

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PERSONAL COMPUTERS

IT'S ALL STARTING TO COMPUTE NOW

A retooled CompUSA has cut costs and begun a marketing push

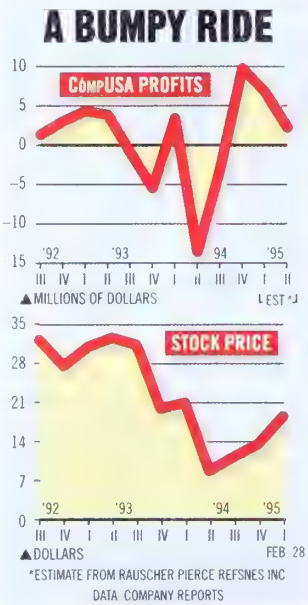
INNOVATOR: *Halpin at CompKids in Dallas*

A year and a half ago, it might not have been such a good idea to drive around with the vanity plates—CPU 1—that James F. Halpin has on his Mercedes. CPU is the stock symbol for CompUSA Inc., the nation's No. 1 computer superstore chain, which by mid-1993 looked like another PC disaster (chart). But in 14 months as chief executive, Halpin has reversed the slide and, by purchasing shares at $7 and $13 made a tidy $1 million-plus on paper as the stock vaulted to its current $18.75. "While everyone was writing our obituaries, we were fixing the company," he brags.

Such a recovery is remarkable in an industry famous for razor-thin margins. So, can it last? "This turnaround is for real," insists Dennis C. Van Zelfden of Dallas stockbrokers Rauscher Pierce Refsnes Inc. Record Christmas sales helped the chain earn $9.7 million in the fourth quarter, beating all Wall Street estimates. And with January looking stronger than December, Van Zelfden expects sales to jump 33%, to $2.8 billion, in the fiscal year ending June 30. Earnings, despite a seasonal dip in the June quarter, will hit $15.5 million vs. a $10.2 million loss last year, he says.

The Halpin method is simple: He applies the lessons from a career at retailers such as Zayre Corp. and BJ's Wholesale Club to the PC business. "I've been running low-margin businesses all my life, so these margins seem high," he says. Halpin, 43, has brought in like-minded executives, including Chief Operating Officer Hal F. Compton, who has known the boss since both were loading delivery trucks at Zayre in the 1970s.

Halpin quickly scaled back the ambitious plans of CEO Nathan Morton. He halted a costly overseas foray, cut costs, and pumped up per-store sales. One key move: a centralized procurement setup that cut inventory turns to 10.5 days from 14 days. "The controls seem to be in place," says Rod C. Keller, director of consumer marketing for Digital Equipment Corp. "They're more of a seasoned retailer than they were." The bottom line: Gross margins are holding at around 12%—well within industry norms.



The other big change was to sl down the expansion plan that got Mor in trouble and led to his ouster. In fis 1994, the chain added 28 stores. T year, the total is eight. "All the old gime cared about was more stores a more sales," says Merchandising Exe tive Vice-President Larry N. Mondr survivor of the old team. "All the n team cares about is profits."

UNDER SIEGE. That's fine so long CompUSA is No. 1—and can comma the best terms from suppliers. But a rival Tandy Corp. is adding 24 Compu City stores this year and next. mid-1996, the chains will be neck-a neck with 100-plus outlets. Tandy, wh has $206 million in cash and could r $600 million through asset sales, acc ing to Van Zelfden, may have the fue pass CompUSA, which has $100 mil on hand. "It wouldn't surprise m CompUSA is the No. 2 computer su store two years from now," says D quest Inc. analyst Van Baker. Worse, PC superstore concept is under ass from electronics chains such as Best Co. and Circuit City Stores Inc. B expects PC sales at t stores to grow 12.5 year vs. 9.8% for st like CompUSA.

That's where a marketing thrust co in. To reach first-time buyers, Comp now places circulars in Sunday pa rather than ads on the business p In August, it launched a consumer-fri ly format in several stores. It includ CompKids area for playing with " tainment" titles while parents try of 400 programs or watch technology mos. "I want it to place people come e weekend to see w new," says Mondry.

So far, so good. Dallas store banke million during its t day opening, equiv to about triple the c wide average. But competition looms. Buy, with 35% of from PCs, is buil "Concept III" store fering 2,000 softwa tles and 5 PC br just like CompUSA. pin has his own i including beefing u porate sales. He'll them if wants to his Mercedes out a

By Peter B in L

Some day, one of us may need the latest medical information.

Mark Fuselman

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This advertisement prepared by Sawyer Riley Compton, Atlanta.

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ITED BY OTIS PORT

ADSIDE SISTANCE BY TELLITE

ROIC TALES OF MOTORISTS have an accident on a re- e country road and sur- for days before being d may be dramas fit for lywood. But TRW Inc. fig- most drivers would rath- not tempt fate. So the eland company has devel- l Mayday, a system that vides the safety of lside emergency es on even the liest byways. iggered by release of an ag or a special h sensor, the day system's ra- ransmitter would matically spring action. It would an S.O.S. to a sat- , which would pin- the source of the l and then relay that lo- n to the highway patrol her emergency-response cy. In case of a back- s breakdown, drivers could manually send a ent signal to summon a tow truck. TRW esti- s the system will cost $400. Look for the first to show up as options 98-model cars.

AT LAST, A GREEN LAWN MOWER

THE GRASS WILL SOON BE GREEN AGAIN IN THE SNOW Belt, and homeowners will be heading for their lawn mowers. On any given spring weekend, 50 million Americans will crank up gasoline-powered mowers.

The little engines are a lot dirtier than their big cousins in cars. In fact, a home lawn mower can spew out as much pollution in a half hour as an automobile does in four to five hours. The Environmental Protection Agency estimates that 20% of all air pollution comes from lawn mowers and garden equipment.

That's why the agency wants new lawn mowers to be fitted with pollution-control systems, which may cost upwards of $100.

Come April, though, homeowners can retire their gas-guzzlers and tend their lawns with a clear conscience—by using the Solar Mower. Developed by Solar Power International Inc. in Bloomfield Hills, Mich., this cordless electric mower draws its energy from the sun. A canopy of solar cells charges a battery that powers the mower for at least 90 minutes even while chomping six-inch-tall grass.

Afterward, the Solar Mower needs to soak up several hours of sunshine to regain its vigor, although it will charge up faster if plugged into a wall outlet. You'll pay to help trim air pollution, though: The Solar Mower will cost $900, or roughly $150 more than top-of-the line gasoline models. By midyear, the company hopes to unveil a solar garden tractor as well.

WHAT'S WHITE, BRIGHT, AND PAPER-THIN?

FOR LOTS OF APPLICATIONS, from the backlights in laptop screens to lighting systems in airplanes, a lamp can never be too bright or too thin. That's why scientists are experimenting with flat panels made from ultrathin layers of unusual organic materials that light up when jolted with electricity. They have built devices that emit a variety of colors, but for many uses, there's nothing like white light—and no one organic material offers the proper snowy hue.

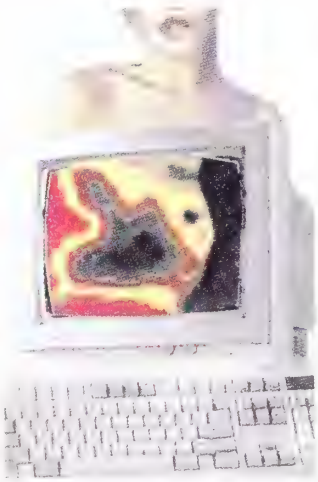
Now, researchers at Yamagata University in Japan may have found a solution. In work described in the Mar. 3 *Science*, a team led by materials scientist Junji Kido fashioned electroluminescent panels from three layers of such materials. One layer produces green light, the second red, and the third blue. Combined, the result is a powerful white light, 22 times as bright as a typical computer monitor. Kido suggests that with a few refinements, the output of the paper-thin device could even match fluorescent bulbs.

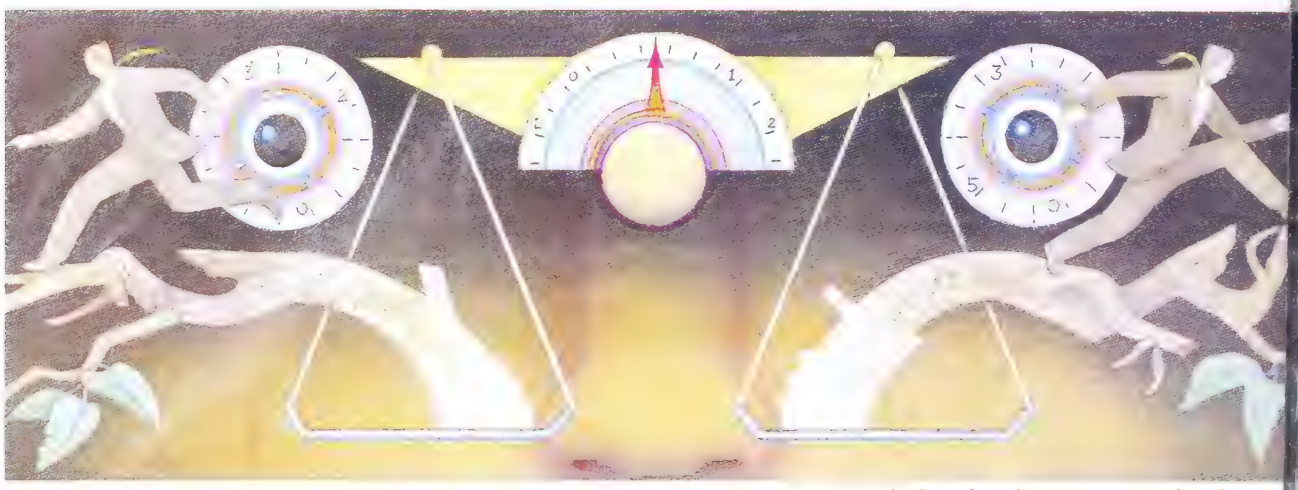
IEURAL NET TO SNAG BREAST CANCER

GHLY 1 IN 8 AMERICAN nen will develop breast er—and for 1 in 28, it prove fatal, according he National Cancer In- ute. Patients have an chance of surviving the five years if the cancer etected early—but 's easier said than done. adiologists have to r X-rays for tiny white kles produced by cal- deposits, but not all of indicate cancer. As a lt, small cancers often escape detection, and many benign lumps are removed needlessly.

Researchers led by Robert M. Nishikawa, an assistant professor of radiology at the University of Chicago, have developed a computer system that promises to fine-tune the diagnostic process. The computer runs a so-called neural-network program that has learned to recognize the danger signs in mammograms.

When Nishikawa fed it the X-rays from 100 patient histories, the neural network correctly spotted all 19 malignant tumors, and it identified 26 of the 35 patients diagnosed as having benign tumors. That performance is better than most doctors'. Now, Nishikawa is using the system to double-check new mammograms. Among the 573 screenings to date, the computer twice found worrisome calcium deposits overlooked by the doctors. R2 Technology Inc. in Mountain View, Calif., has licensed the technology.





POLICY

VOODOO REGULATION?

The benefits of GOP risk standards may be illusory

How much is a human life worth? How do we weigh the risks to health and safety against the benefits of a particular chemical or device? The answer, as it stands now, depends on how that life is at risk: Federal regulations force industry to spend roughly $10 million for every life saved to control small amounts of benzene in the air. Yet the government refuses to spend $10,000 per life saved—to screen women for breast and cervical cancer. It is a regulatory system, says John D. Graham, head of the Center for Risk Analysis at Harvard University, based on worst-case scenarios, unrealistic standards, and cockeyed priorities. "This country," says Graham, "is paranoid and neglectful about risk at the same time."

The Republican-led Congress says it has the answer for those fed up with the status quo in environmental, health, and safety rules, which now cost some $500 billion a year. Congress is considering landmark legislation that would force regulatory agencies to use so-called risk assessment (RA) to measure the danger of any threat to health, safety, or the environment before they impose new regulations. The House bill, scheduled for a vote in March, would require agencies to weigh the costs of regulation against the benefits for any proposed rules that cost more than $25 million to impose. Supporters hail the House bill and similar legislation in the Senate as an end to an era of irrational regulation that imposes an unfair burde industry. "This is our effort to get regulatory process under control," Dana Rohrabacher (R-Calif.).

NO PANACEA. Critics, however, a that the House bill in its current fo likely to make matters worse. Oppo contend that industry would be hit costly new testing requirements. F al agencies would be forced into tak one-size-fits-all approach to regula which will increase inflexibility, say ics. In addition, a peer and judicia view process, which will give all the opportunity to reject proposed lations, is likely to increase litiga further slow down rule-making, and more key decisions to the courts. case, says Thomas O. McGarity, a professor at University of Texas S of Law, the bill would have the tended consequence of repealing cu laws "through the back door by m it impossible for the agencies... their jobs." It may not be so uninte Republicans such as Representative ert S. Walker (R-Pa.) say they wo mind if agencies issued fewer regula

Even business leaders, who su the bill publicly, private cond Says one pap dustry CEO: "Th doesn't get t root of the reg ry problem"—fi tion over the l flexibility to regulations an adversarial, lit nature of the p Indeed, exec say an ill-cons risk-assessmen would threaten priorities for r tory reform— tives for po

THE RISKS OF RISK ASSESSMENT

Congress is set to mandate that government agencies assess the risks and cost-benefit of all regulations that cost more than $25 million. In theory it's a good idea, but neither the proposed bill nor risk assessment itself can guarantee better regulation. Here's why:

LACK OF DATA In many instances, scientists and economists lack sufficient data to perform the analyses required

FLAWED METHODS Methods are deficient when it comes to assessing risk to ecosystems, determining whether chemicals cause cancer, and comparing very different risks to one another

UNINTENDED CONSEQUENCES By requiring such steps as judicial review, the legislation would lead to more litigation, pose new burdens on industry to gather data, and likely produce more regulatory gridlock

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Buckle up, America!

prevention, more cooperation between government and industry, and more predictable and consistent regulations.

Perhaps most troubling, the process of risk assessment itself has shortcomings, which make it no panacea for regulatory discontent. Scientists are unable to gauge with any precision the risk of cancer to people from exposures to low doses of toxic chemicals, let alone put a precise dollar figure on the benefits and costs of reducing such exposures. By focusing almost exclusively on dollar costs, the House bill tends to make RA synonymous with quantitative data, says Gilbert S. Omenn, dean of the School of Public Health at the University of Washington. But the qualitative aspects, such as describing the hazards of cleanup, can be just as important, he argues. RA and cost-benefit methods also have difficulty accounting for the impact on the natural environment and gauging the value of the continued existence of plants, animals, and natural amenities such as clean water. That makes reliable estimates of the risk of ecosystem damage from global warming, ozone depletion, or ocean pollution hard to quantify.

These shortcomings are exacerbated because risk assessments of the same problem can begin with different assumptions. The upshot? A degree of uncertainty that can vary more than a hundredfold and yield conflicting results. Although the House bill calls for disclosing the uncertainties and reconciling conflicts by coming up with "best" estimates of risk, "there is no methodology for analyzing those uncertainties," says Dr. Bernard D. Goldstein, director of the Environmental & Occupational Health Sciences Institute at the Robert Wood Johnson Medical School in Piscataway, N.J. The result: endless wrangling about the size of the uncertainties.

ROLLBACK FEVER. Yet for all the vagaries of RA, experts such as Harvard's Graham want to see it mandated for new regulations. "We need a bill if we want to improve risk assessment," he argues. "It will force the bureaucracy and private sector to improve the process." Some experts favor fixing the legislation by using cost-effectiveness as a standard, t forcing regulators to find least-costly ternatives—not just a single option with cost-benefit. Others would limit view requirements and mandate RA when rules cost more than $100 mill

Such changes are unlikely. Ear this year, opponents hoped that Se Republicans would push for a more t perate bill. But the new GOP leader is now maneuvering to bypass mode members such as John H. Chafee R.I.), raising fears that a more extr version will prevail. "We are goin roll back regulations," promises Se Majority Leader Bob Dole (R-Kan.

That's just what some in indu fear. "If we roll back regulation," Frank R. Popoff, chairman of Chemical Co., "inevitably the pendu will one day swing dramatically bac the other direction." The question bill's supporters must ask themselve that a risk worth taking?

By Emily T. Smith in New Y with John Carey and Mary Beth R in Washington

SO MANY CHEMICALS, SO FEW ANSWERS

In its rush to base all regulations on risk assessment, Congress is forgetting the method's dirty little secret: It doesn't give very good answers. When it comes to the crucial question of whether chemicals cause cancer in people, "I'm not sure we've made a lot of progress," says risk consultant Kenny S. Crump of ICF Kaiser in Ruston, La.

This doesn't mean science has been standing still. "There has been an explosion of information on the mechanisms by which chemicals cause cancer," says Dr. John Whysner of the American Health Foundation in Valhalla, N.Y. But the new research hasn't translated into greater certainty.

MASSIVE ZAPS. Witness dioxin. "Despite the fact that it has been studied to death, we still can't agree on how it acts or what it does," says Gail Charnley, executive director of the President's Commission on Risk Assessment & Risk Management. For other substances such as saccharin, assessments of carcinogenic potency differ by more than 1 billion—hardly a solid foundation for regulation.

The problem is the immense difficulty of linking chemicals with cancer or with other medical problems. With a few rare exceptions, Americans encounter such low levels of harmful substances that human studies cannot spot any connection. That's why toxicologists turn to animals. But thousands of rats and mice must be tested to spot risks posed by typical low-level exposures. So in the mid-1970s, scientists developed a method of zapping rodents with huge doses.

SMELLING A RAT

Many substances that cause cancer in rodents don't harm humans–and vice versa

Such tests are of questionable relevance, however. Many rat carcinogens don't cause cancer in humans, and vice versa. What's more, what happens at massive doses often provides little guide to the effects of small exposures.

Indeed, as researchers probe th actual pathways of chemicals throu the body, they are discovering how flawed the estimates derived from massive-dose tests can be. The bod appears able to protect itself even against some substances, such as formaldehyde, that directly damage DNA. And for hundreds of other chemicals, low doses fail to trigger the harmful mechanisms found at t higher doses. In fact, because dioxi prompts cells t make a protective enzyme, the substance ma actually exert an anticancer effect small doses, some scientists sugges

Unfortunately, the new studies won't provide conclusive answers f years to come—if ever. Not only would ferreting out mechanisms of action for thousands of chemicals cost more than agencies can afford but also there's no guarantee that each substance may not still be ac ing by an undiscovered, more harm ful pathway. The inescapable concl sion: Science is decades away from being able to pinpoint the hazards the thousands of chemicals that pe meate our environment.

By John Carey in Washing

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EDITED BY AMY DUNKIN

A CYBERFEST FOR CULTURE LOVERS

Like most patrons of fine-art museums, I was passing from one room of masterpieces to another, pausing at regular intervals to admire the works that most captivated me. In one private collection of post-Impressionist paintings, I stopped to appreciate *The Music Lesson* by Henri Matisse. I moved in close, then retreated, to view the painting from different perspectives. A helpful guide pointed out that this was the artist's 1917 vision of domestic harmony, one of only two portraits of his family.

Such a wondrous afternoon—and I never set foot in a museum. Instead, I studied the pieces on *A Passion for Art*, a new CD-ROM from Corbis Publishing, which is owned by Microsoft Chairman Bill Gates.

Whether viewing multimedia compact disks or surfing the virtual museums of the Internet, art and music lovers can sample high culture on their computer screens. Institutions ranging from the Andy Warhol Museum in Pittsburgh to the Museum of Paleontology at the University of California at Berkeley display portions of their collections on the World Wide Web, a part of the Internet. Others are presenting bodies of work on CD-ROMs. One example: the Italian Metamorphosis exhibit shown at the Solomon R. Guggenheim Museum in New York. At the same time, devotees of Beethoven and Mozart—or the Beatles—can revel in compositions on CD-ROM while learning more about the periods in which the composers lived.

Computer culture is no substitute for a visit to a gallery or concert hall, of course. Multimedia disks, like art books, cannot reveal all the nuances that make a painting compelling, especially if the works are displayed with limited colors and poor resolution. But the right interactive disk can help people appreciate the real thing, though it helps if your computer is equipped with state-of-the-art sound and video components.

VOICE CLIPS. For now, CD-ROMs are easier to use than the Web, especially for PC neophytes. American Visions, from Eden Interactive and Creative Labs, features splendid reproductions of some 200 paintings from noted 20th century artists such as Georgia O'Keefe, Jackson Pollock, and Mark Rothko. Based on the Roy R. Neuberger Collection in Purchase, N. Y., the disk includes more than 45 videos of Neuberger and various artists.

It figures that Bill Gates, a noted collector in his own right, would want to dominate computerized culture as he does so much of the software industry. His Corbis CD-ROM, distributed by Maxis, lets you explore the Barnes Foundation in Merion, Pa. Click on Matisses, Cézannes, and Renoirs, and zoom in for a closer view of the brushstrokes. By sliding the mouse, you can pan across the painting. Some 330 works of the 11,000-piece collection are included. They all offer written text on the painting and artist, some with voice-over commentary.

The Corbis program also lets you listen to audio clips of Dr. Albert C. Barnes or take a guided tour (the female nude, the dance) with art experts. You can browse a labyrinth of archives and find fascinating tidbits, such as a 1915 letter in which Barnes explains his decision not to buy Renoir's *Sailor Boy* because the price wa

COMPUTERS

CD-ROMs and the Net can beam up Renoir—or Ringo

high. A few minor flaws: re are no videos, and you search through the text he disk.

ates has also put out ng titles under the Micro- name. *Microsoft Art Gal-* features reproductions of e than 2,000 works from lon's National Gallery, plus ts' biographies. You can pictures by subject (relig- imagery, still life) or by ing on a historical world . In the "Beneath the ish" tour, you see how paintings as *The Incre- lulity of St. Thomas* were restored.

This spring, Voyag- er will unveil *Star- ry Night*, a disk

that delves into Vin- an Gogh's famous paint- The software publisher lso teamed up with the nstitute of Chicago on coming disk, aimed at alled *With Open Eyes*.

NT HELP. Voyager and soft have joined forces eries of multimedia mu- ks that let you dissect orks of Beethoven, Mo- and Schubert. As you to the full composi- -the *Ninth Symphony*, *uant Quartet*, and *The Quintet*—text that ex- the selections being l scrolls down the . The CD sound is su- -provided you have de- peakers. By clicking on ghted words, you can pause the text and music for definitions of terminology.

But *Viking Opera Guide* on CD-ROM is disappointing. It's nice to hear excerpts from the operas as you read about them, but the graphics are rudimentary and the program is hard to use. For example, a search for *La Bohème* yielded a citation for Ruggero Leoncavallo. Since the words *La Bohème* are not highlighted, you have to pore through the section on Leoncavallo before discovering that he was writing an opera similar to Puccini's.

People craving culture of a more modern sort might like the CD-ROM version of the Beatles' 1964 movie, *A Hard Day's Night*. Besides the uncut version of the film, the Voyager disk contains the trailer, original script (with deleted and improvised dialogue), and an essay on the Fab Four by critic Bruce Eder. Graphix Zone recently unveiled a CD-ROM, *Bob Dylan: Highway 61 Interactive*, featuring lyrics and liner notes from 41 albums, plus some recordings. For counterculture buffs, Time Warner Interactive's *Woodstock: 25th Anniversary* CD-ROM includes video clips of artists such as The Who, Janis Joplin, and Sly & the Family Stone.

Users of the Internet quickly learn that many museums approach the Information Age with a mix of excitement and trepidation. It's simple to serve up newsletters, catalogs, and some art. But museums are gun-shy about sharing complete collections with cybervisitors, partly over the fear that their works will be downloaded and used improperly for commercial purposes. That's why images on the Web are "restricted in resolution and the number of colors," says Scott Sayre, director of technology initiatives at the Minneapolis Institute of Arts, which offers more than 150 pages of information on the Internet.

Nonetheless, the Michael C. Carlos Museum at Emory University offers an impressive online collection. By clicking on a gallery index—ancient Americas, classical Greece and Rome—you can view works such as *Whistle in the Form of a Crocodile*, a Costa Rican ceramic from 200-500 A. D.

But culture-seeking on the Web can be daunting. You'll need graphical Web browser software, such as Netscape Navigator or the program included on Prodigy's online service. What's more, unless you have a speedy Internet connection, you may be able to take a cab to the nearest museum by the time some pictures or videos are displayed. Even with a modem speed of 14.4 baud on Prodigy, it took me over 10 minutes to download a 28-second excerpt of Tchaikovsky's *Nutcracker* from the San Jose Symphony's Web server.

A good place to start your tour is by clicking on the Yahoo list, which segregates sites by categories (fine arts, music, photography). The Fine Art Forum WWW Resource Directory, at "http://www.msstate.edu/Fineart_Online/art-resources.html", is another excellent jumping-off point.

DIGITAL SHOWCASE. By clicking on color-coded terms and references, it's generally easy to go from one Web site to another. The Web server at the Georges Pompidou Center in Paris includes a list of Web addresses for museums around the world. New York-based ArtNetWeb is a showcase for contemporary artists who pay a fee to display digital slides of their work. It's also linked to other sites including the Surrealism Server, which features Tristan Tzara and Salvador Dali.

So if you're trying to figure out what the painting means, you can linger as long as you want without getting nudged along or blocking someone's view. *Edward Baig*

Beloved Immortals on CD-ROM

A PASSION FOR ART Corbis Publishing, $40-$50, Windows	Move from room to room in this splendid look at post-Impressionist paintings of the Barnes Foundation.
MICROSOFT ART GALLERY Microsoft $60, Windows	Features more than 2,000 works from London's National Gallery. Includes thematic guided tours and bios of artists.
AMERICAN VISIONS Eden Interactive, $60, Windows, Macintosh	20th century art from the Roy R. Neuberger Collection including Pollock, Avery, Hesse, and Hopper. Videos of artists at work.
MULTIMEDIA BEETHOVEN MOZART, SCHUBERT Microsoft, $60 each, Windows Voyager, $50-$60 each, Mac	Dissect Beethoven's Ninth Symphony, Mozart's Dissonant Quartet, and Schubert's Trout Quintet as you listen to scores and learn music terminology and structure.
WOODSTOCK Time Warner Interactive, $20, Windows, Mac	25th Anniversary disk brings back video performances and interviews from the famed rockfest.
VIKING OPERA GUIDE ON CD-ROM Viking Penguin $100, Windows	Examines some 800 composers and 1,500 operas. Adds music and narration to text, but has rudimentary graphics and is awkward to use. Price includes 1,305-page book.

THREE THAT PUSH THE LUXURY ENVELOPE

Luxury cars tend to define the cutting edge of automotive refinement and techno-sophistication. A new crop of redesigned luxoliners—the Lexus LS400, BMW 740i, and Jaguar XJ6—moves the benchmark a few notches higher. All three offer muscular performance and sumptuous creature comforts. The Bimmer stands out for its buttery-smooth, quiet ride, the Jag for its curvy good looks, and the Lexus for its all-around competence.

Most apparent, $50,000 to more than $70,000 buys coon-like calm. That's where BMW's new top-end sedan excels, thanks to a stiffer chassis, longer wheelbase, and great sound-deadening. The car swallows big bumps and potholes with hardly a shudder. Thicker window glass and more aerodynamic side mirrors hush wind noise. The Jag and Lexus are also exemplary, although they don't quite match the BMW's high standard. Both, however, exhibit controlled body motions, even on rough city roads.

LEANER LEXUS: *The LS400 sheds 200 pounds*

For interior comfort, the Lexus and BMW take top honors. The standard leather seats are firm and supportive. Up front, electric motors adjust them to myriad settings. In back, there's oodles of leg- and headroom. Among numerous useful touches on the LS400: Twin cup-holders glide out of a fold-down rear-center armrest, and the optional compact-disk player fits in a compartment in the dash, above the glove box.

GOOD GAUGES. The Jag's soft leather and burled walnut interior have old-world charm. But quarters are close. Passengers can feel claustrophobic, especially in back, where legs and feet are cramped—odd in a car nearly 200 inches long. Also, the passenger air bag has displaced the glove box.

From a functional standpoint, the Lexus' interior wins hands down. Controls for the automatic climate control system and stereo are among the largest and simplest to use of any car on the road. And the gauges, with their tiny neon wands, are easy to decipher at a glance. On the Jag, in place of the former jumble of seemingly unrelated switches, is a cohesive grouping for the sound system and climate control. Unfortunately, the steering wheel blocks a clear view of the cruise control and fog-light switches.

The Bimmer's speedometer and other dash gauges are simple enough. But the center console with radio and climate controls is a wall of hard-to-decipher buttons, knobs, and digital displays. Even the steering wheel suffers from feature overkill, jammed with switches for radio, phone, and cruise control.

STATELY BAVARIAN: *The 740i shrugs off bumps*

All these cars perform impressively on the road. Toyota's engineers trimmed 200 pounds from the new Lexus' weight, which translates into snappy acceleration, nimble handling, and good fuel economy. The 260-horsepower, four-liter V-8 whips to 60 mph in just eight seconds, one tick faster than the old version. The four-speed automatic makes silky shifts. Figure on better than 20 miles per gallon.

SLEEK CAT: *The XJ6 [illegible] gulping, fuel-guzzling*

The Bimmer is close behind, but its 500-pound greater heft can be felt: The 282-horsepower V-8 lags initially before hustling to 60 mph as quickly as the LS400. The five-speed automatic transmission shifts smoothly, but its quirky computer controls may annoy some drivers. The car, which gets about 17 mpg, has a tenacious grip on sweeping curves, yet feels ponderous in quick maneuvers.

ROUND HEADLIGHTS. The Jag, with its 245-horse six-cylinder, keeps up in a 0-to-60 dash. But the four-speed automatic is balky, with some clunky shifts. Handling is much improved from the old version, which plowed sickeningly through hard turns. All in all, the Jag is bala[illegible] and nimble, despite a b[illegible] excessive body roll. [illegible] economy is about 17 mp[illegible]

In styling, the Bim[illegible] and Lexus are little cha[illegible] from their predecessors. [illegible] new LS400 has subtle [illegible] ferences in hood line [illegible] body side panels. The [illegible] appears wider and lower [illegible] the trunk now has a s[illegible] spoiler. The Jag, how[illegible] hearkens back to its [illegible] Rectangular headlamps [illegible] made way for four [illegible] fashioned round ones, [illegible] which the hood curves [illegible] brow-like.

It's easy to fall in [illegible] with luscious cars like [illegible] Paying for them is an [illegible] matter. The L[illegible] has the lowest [illegible] ing sticker, at $51,200 [illegible] that can easily jum[illegible] $60,850 for one with a [illegible] goodies. The Jag XJ6 [illegible] at $53,450; loading it up [illegible] five grand. A superch[illegible] version, the XJR, sta[illegible] $65,000, and a 12-cyl[illegible] model begins at $77,25[illegible] beginning sticker on a [illegible] is $57,900. That ris[illegible] $63,250 with options su[illegible] traction control.

AUTOS

The best deals in the [illegible] ly competitive luxury m[illegible] come in factory-subs[illegible] leases. Unfortunately [illegible] trio is so ne[illegible] discounts will [illegible] ably be ha[illegible] find. You can [illegible] out rivals i[illegible] demand, su[illegible] Nissan's I[illegible] Q45, or w[illegible] while. But [illegible] superlative p[illegible] mance, you [illegible] times just h[illegible] dig deep an[illegible] up. *David W[illegible]*

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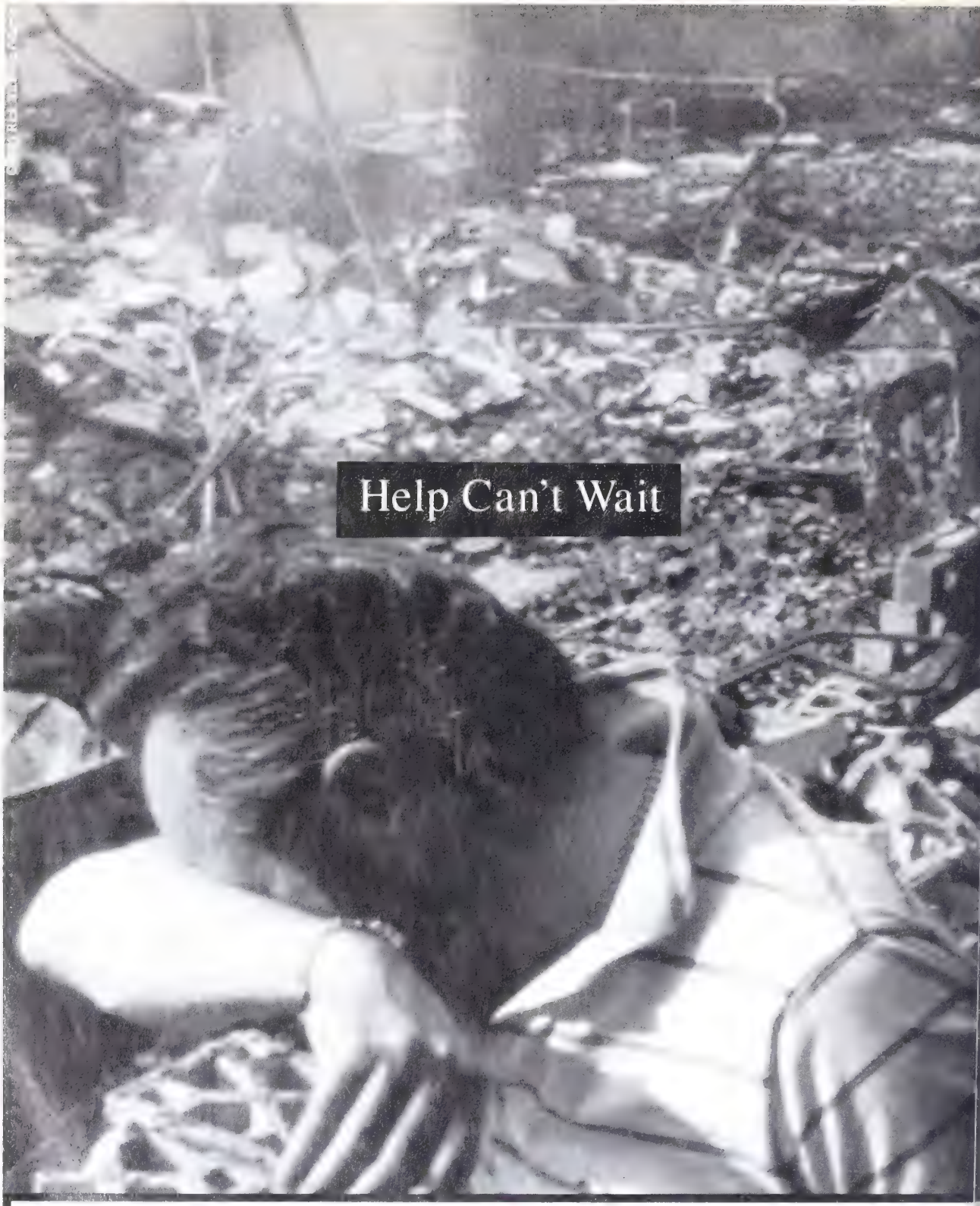

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Change from last week: –0.1%
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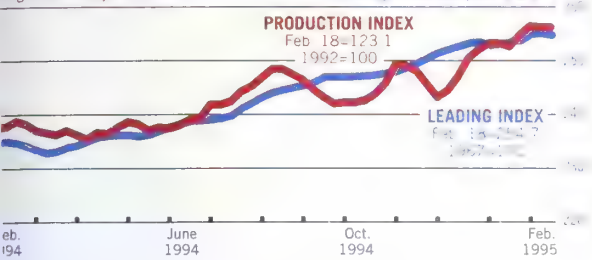

exes are 4-week moving averages

oroduction index was unchanged during the week ended Feb. 11. onally adjusted output levels of steel, autos, paperboard, and coal were olidly. Those gains helped push up the index before calculation of the week moving average. The unaveraged index rose to 122, from 120.9. **eading index** fell slightly in the latest week. The unaveraged index also ied, to 253.7 from a revised 254.4, held down by slower growth in ials prices.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (2/25) thous. of net tons	2,046	2,030#	7.5
AUTOS (2/25) units	150,060	148,380r#	–0.7
TRUCKS (2/25) units	117,050	118,701r#	–3.4
ELECTRIC POWER (2/25) millions of kilowatt-hrs.	NA	64,127#	NA
CRUDE-OIL REFINING (2/25) thous. of bbl./day	13,334	13,309#	2.6
COAL (2/18) thous. of net tons	21,024#	20,401	1.2
PAPERBOARD (2/18) thous. of tons	934.6#	918.2r	10.6
PAPER (2/18) thous. of tons	846.0#	858.0r	2.1
LUMBER (2/18) millions of ft.	437.7#	457.7	–10.3
RAIL FREIGHT (2/18) billions of ton-miles	23.6#	23.3	4.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (2/24) S&P 500	485.71	483.19	3.6
ORATE BOND YIELD, Aaa (2/24)	8.23%	8.26%	13.8
STRIAL MATERIALS PRICES (2/24)	113.1	112.6r	NA*
NESS FAILURES (2/17)	NA	349	NA
ESTATE LOANS (2/15) billions	$466.3	$466.1	10.3
Y SUPPLY, M2 (2/13) billions	$3,588.2	$3,592.6r	1.8
AL CLAIMS, UNEMPLOYMENT (2/11) thous.	347	318	–3.6

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/1) $/troy oz.	375.700	379.200	–1.0
STEEL SCRAP (2/28) #1 heavy, $/ton	142.50	142.50	2.2
COPPER (2/25) ¢/lb.	138.5	139.4	52.7
ALUMINUM (2/25) ¢/lb.	92.3	91.5	48.8
COTTON (2/25) strict low middling 1-1/16 in., ¢/lb.	96.25	91.36	29.7
OIL (2/28) $/bbl.	18.56	18.86	25.8

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
RAL FUNDS (2/28)	6.10%	5.99%	3.28%
ERCIAL PAPER (3/1) 3-month	6.13	6.14	3.78
FICATES OF DEPOSIT (3/1) 3-month	6.13	6.13	3.71
MORTGAGE (2/24) 30-year	8.88	9.04	7.44
STABLE MORTGAGE (2/24) one-year	6.63	6.80	4.38
(3/1)	9.00	9.00	6.00

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/1)	96.76	97.00	105.40
GERMAN MARK (3/1)	1.47	1.47	1.71
BRITISH POUND (3/1)	1.58	1.59	1.49
FRENCH FRANC (3/1)	5.15	5.14	5.83
ITALIAN LIRA (3/1)	1643.5	1622.5	1685.8
CANADIAN DOLLAR (3/1)	1.40	1.40	1.35
MEXICAN PESO (3/1)[3]	5.905	5.775	3.230

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

lata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

LMENT CREDIT

y, Mar. 7 ▶ Consumers probably about $9 billion more to their debt s in January. That's the median fore- economists surveyed by MMS Inter- l, a division of McGraw-Hill Inc. ent credit had soared through much 4, with a peak of $15.2 billion add- ugust. So, debt as a percentage of ble income rose by a full percentage itting 17.8% by yearend. But in er, debt grew by a relatively modest llion, and the expected gain in Jan- y signal that households are pulling their use of credit cards as they derate their spending. In fact, the to revolving credit, which encompasses credit cards, slowed sharply in December compared with the previous two months.

UNEMPLOYMENT CLAIMS

Thursday, Mar. 9, 8:30 a.m. ▶ Initial claims for state unemployment benefits probably fell back to around 325,000 for the week that ended on Mar. 4. Filings had jumped to a 349,000 pace in the week of Feb. 17, one of the highest levels in the past year.

EMPLOYMENT

Friday, Mar. 10, 8:30 a.m. ▶ The MMS median forecast for nonfarm payrolls calls for a solid increase of 240,000 in February, almost twice the 134,000 new jobs created in January. However, the range of employment projections is quite wide, from a small 101,000 new jobs to a huge 350,000. In 1994, nonfarm payrolls expanded by almost 3.5 million, but higher interest rates and a slower economy mean that job growth won't be nearly as fast this year. The MMS survey also calls for a February gain of 25,000 new factory jobs, on top of 35,000 new hires in December and 39,000 jobs in January. The unemployment rate, which ticked up to 5.7% in January from 5.4% in December, is expected to slip slightly, to 5.6%. That's still low enough to generate fears about wage pressures and inflation.

U.S. Savings Bonds Are Now Tax Free For College. Good News Today. Better News In 18 Years.

If the cost of a college education seems expensive now, imagine what it will be in 18 years. That's why Bonds bought for your child's education can be completely tax free. Start buying Bonds today at your local bank, or ask about the Payroll Savings Plan at work.

U.S. Savings Bonds

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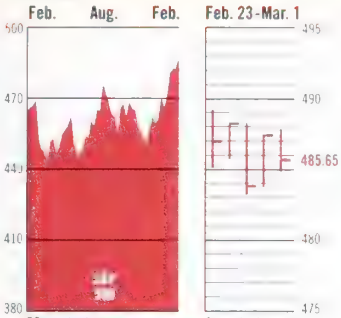
ıvestment Figures of the Week

IENTARY

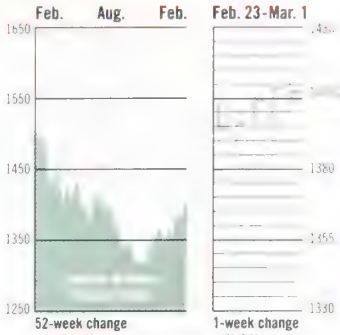
w's first breakthrough into the 'ange was overshadowed by the e of Britain's oldest investment Barings PLC, which was brought y a single futures trader. U.S. ies gained on news of the demise as investors sought a rom the turmoil and as specu- rew that the Federal Reserve ıp raising interest rates. That e long bond's yield down to its lowest point since mid-Au- erger activity continued, with : announcing that it was in acquire Marion Merrell Dow.

STOCKS



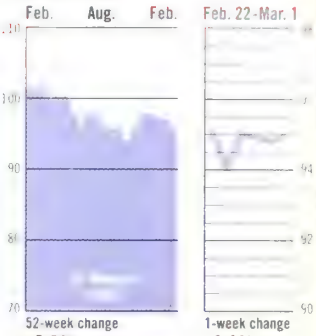
52-week change +4.5%
1-week change +0.1%

BONDS



52-week change −6.8%
1-week change +0.8%

THE DOLLAR



52-week change −5.5%
1-week change −0.1%

RKET ANALYSIS

'OCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	3994.8	0.5	4.3
: COMPANIES (S&P MidCap Index)	178.8	0.6	−0.3
:OMPANIES (Russell 2000)	256.1	0.8	−2.6
IPANIES (Russell 3000)	278.0	0.3	3.4

IN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3041.2	0.7	−6.4
NIKKEI INDEX)	16,618.7	−8.2	−15.8
) (TSE COMPOSITE)	4083.8	−0.9	−6.4

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.89%	5.83%	3.55%
30-YEAR TREASURY BOND YIELD	7.44%	7.54%	6.77%
S&P 500 DIVIDEND YIELD	2.67%	2.68%	2.48%
S&P 500 PRICE/EARNINGS RATIO	16.2	16.3	21.1

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	462.3	461.2	Positive
Stocks above 200-day moving average	56.0%	53.0%	Neutral
Speculative sentiment: Put/call ratio	0.73	0.66 r	Positive
Insider sentiment: Vickers sell/buy ratio	0.78	0.75	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

VEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
IFACTURED HOUSING	17.7	−4.1	FLEETWOOD ENTERPRISES	20.7	−0.6	21 7/8
R CONTAINERS	13.7	14.3	STONE CONTAINER	30.8	46.1	23 5/8
BUILDING	12.3	−31.2	KAUFMAN & BROAD HOME	14.7	−29.1	14 5/8
UMENTATION	11.2	23.7	HEWLETT-PACKARD	11.9	26.4	115
IALTY PRINTING	9.7	−0.3	R.R. DONNELLEY & SONS	11.8	10.9	34 1/4

EEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
IALTY RETAILERS	−5.2	−5.9	LOWE'S	−10.9	6.3	33 5/8
INE TOOLS	−3.7	−23.1	CINCINNATI MILACRON	−11.1	−8.7	21
ITION CONTROL	−3.3	7.0	WMX TECHNOLOGIES	−5.8	6.6	26 3/8
INUM	−2.5	2.1	ALCOA	−3.7	2.3	39
.S	−2.5	−0.5	CYPRUS AMAX MINERALS	−5.7	−10.0	27

UAL FUNDS

MORNINGSTAR INC

S

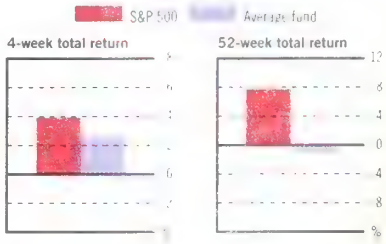
k total return	%
IESS FLIGHT CHINA & HONG KONG	9.6
ORT TIGER	9.6
VESTMENT PACIFIC BASIN EQUITY	8.8

total return	%
ITY SELECT HEALTH CARE	31.4
NS OPPORTUNITY	30.0
MAN COMMUNICATIONS & INFORM. A	28.2

LAGGARDS

Four-week total return	%
WRIGHT EQUIFUND-MEXICO NATL.FID.EQTY.	−17.6
MORGAN STANLEY LATIN AMERICAN A	−16.0
BT INVESTMENT LATIN AMERICAN EQUITY	−14.7

52-week total return	%
MONITREND GOLD	−53.0
HERCULES LATIN AMERICAN VALUE	−44.4
FIDELITY LATIN AMERICA	−44.2



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts represent the value of $10,000 one year ago ortfolio

ages indicate total returns

U.S. stocks	Money market fund	Foreign stocks	Gold	Treasury bonds
$10,658	$10,500	$10,259	$10,012	$9,677
+0.38%	+0.25%	−2.30%	−0.59%	+1.76%

: this page are as of market close Wednesday, Mar. 1, 1995, unless otherwise indi- ustry groups include S&P 500 companies only; performance and share prices are as of market close Feb. 28. Mutual fund returns are as of Feb. 24. Relative portfolios are valued as of Feb. 28. A more detailed explanation of this page is available on request. r=revised

POPULISM: TAKE THE GOOD, LOSE THE UGLY

There are moments in American history when "the people," those who work hard, pay taxes, and raise families, appear to lift a righteous fist at the powerful forces that control their lives. This is one of those times.

Turn on the radio, check out the Internet, or listen to congressional debates on C-Span, and it becomes immediately clear that the language of populism has become the *lingua franca* of our society. Listen to the voices of America: There are angry words against government bureaucrats, Wall Street bankers, immigrants, Big Business, welfare cheats, and liberal elites. The fear and anxiety are real.

But are the Prophets of Populism, the spokespeople for the movement, correct in how they are representing the concerns of the vast majority of Americans? Are the proposals being offered in Congress sensible, pragmatic solutions to real-life problems of working men and women, or are there other agendas at work reflecting special interests or extremist ideologues? If the latter is true, the opportunity to repair the governance of American society will be squandered.

Populism has been part of the American social fabric since the days of Thomas Jefferson. Whenever there is vast economic change, be it the switch from agriculture to industry in the 1890s or from industry to information in the 1990s, Americans rebel. But they don't revolt. Americans protest not against the entire political system, just against the special interests that appear to be running it; not against society per se, just the forces that seem to be controlling the people.

THE SPECTER OF RACISM

Today, much of the populist rebellion is directed against big government. To many in the middle class, government appears out of control, bloating itself to enormous proportions, absorbing an ever-increasing amount of tax dollars. As incomes stagnate and health and pension benefits shrink in the private sector, the middle class watches a growing army of state and local government employees come away with fatter paychecks and richer benefits year after year. As they work harder to ward off the specter of downward mobility, the middle class watches a welfare culture take hold, where generation after generation of irresponsible people have children and are supported by the state.

Properly harnessed by responsible politicians, populism can lead to new policies and a better life. Manipulated by false prophets, however, populism can degenerate into racism, nativism, and isolationist trade policies that could lead to serious recession. Our greatest challenge is to harness the power of populism into realistic, constructive policies supported by the vast majority of Americans. That is what happened with earlier populist movements. That would be ideal today.

The new populist tide has been slowly building. Over the past 30 years, three colossal waves have washed over the nation's families, tearing them loose from their moorings. First, government began to fail them. Critical services—schools and safe streets—deteriorated sharply, while the cost o ernment rose dramatically. The total tax burden, includi eral, state, local, Social Security, and Medicare taxes, heavier with each passing year.

A STEW OF SOLUTIONS

Over precisely the same period, economic insecurity the nation. Rapid technological change and globalizatio ed lifetime employment. Economic growth slowed. In stagnated. The erosion of highly paid blue-collar jo the eviseration of white-collar employment that follow a profound political effect. The destruction of corporat dle management was particularly painful. Downsizi restructuring pushed millions of middle-class people out cocoon of Big Business institutions into the harsh w small enterprise. To their dismay, they found that gove was once again a tremendous burden and obstacle, w endless regulation of their every business activity.

Then came the immigrants. It is no coincidence th great populist movement of 100 years ago developed, i in reaction to the last great immigration wave to th Something very similar is happening a century later. the 1980s and 1990s, Americans have faced growing c tion for jobs and business not only from surging i but from massive numbers of new immigrants. Accom tion fatigue set in. Absorbing so many people in a pe economic distress proved difficult at best. Social-servic particularly for refugees and illegal immigrants, so gateway states such as California and New York.

The New Populists have succeeded in capturing r society's current rage, but their stew of solutions for maladies contains the good, the bad, and the ugly. P today, as it has in the past, encompasses those w "cosmopolitans," immigrants, free trade, Wall Stre poor, and big corporations. If this snarling-dog faction way, the U. S. will devolve into a society that few mid Americans would recognize or want to live in.

The moderate middle has always been where the m of Americans live, and that is where the New Populis head if they are to succeed. Programs that make gove more productive and less costly are what is need only in Washington but at state and local levels, too love on welfare reform that moves people into workf makes them responsible for themselves is required—b the cash for training and child care. Stopping the flo gal immigrants and those who hire them, and perhap ing the very high level of legal immigration while the absorbs the current wave, is called for. Above all, with the American public that it can't have lower ta generous government services at the same time is sary to bring sanity back to the body politic. Sloganeeri hate-mongering are easy. Surely, they are not the be lism has to offer.

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WALL STREET THE STRAINS AT GOLDMAN SACHS **THE BUDGET** NOW THE HARD CHOICES

NESS WEEK
March 20

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BusinessWeek

ARCH 20, 1995 A McGRAW-HILL PUBLICATION $2.95

HOT MONEY

The dollar is crashing. Mexico is in meltdown. The European currency system is collapsing. In part, all are casualties of economic problems at home. But traders and investors, by instantly moving trillions of dollars around the globe, fan the flames. Can the damage be contained?

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Plus:

SINGAPORE

Can it really be Asia's financial capital?

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Achieving near perfect 50/50 weight distribution has always been something of an obsession at BMW.

It guides our engineers to such a degree that even battery placement varies from car to car. In the 325i pictured above, the 48-lb. battery is located in the back, while in the 318i, it's placed under the hood.

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BusinessWeek
MARCH 20, 1995

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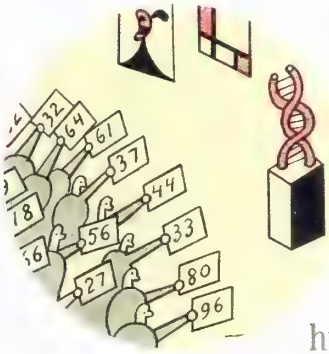

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "To get into an intraparty battle, with heavy-duty work in front of us, is destructive, and it's not smart."

—Phil Gramm (R-Tex.), on talk of ousting balanced-budget-amendment foe Mark Hatfield (R-Ore.) as Senate Appropriations head.

THE DEAL MILL

ING HAS TROUBLES OF ITS OWN

ING, THE DUTCH BANK IN LINE to take over woebegone Barings, may be a growing financial powerhouse, but it has had its own share of financial pratfalls. While Internationale Nederlanden Groep is profitable overall, it says its trading arm ran red ink in 1994's first half—$5 million, say analysts. Blame Latin American debt problems. The bank expects to show a trading profit for the full year when results are unveiled on Mar. 30.

Closer to home, ING has run into trouble with its Orion Insurance subsidiary. The insurer went into liquidation in Britain after running up $1.5 billion in liabilities from asbestos and other environmental claims.

Another ING acquisition also proved a bust. In 1990, the company bought Britain's Victory Reinsurance at what it thought was a bargain-basement price of $200 million. Then it had to put in an additional $320 million after learning of Victory's liability exposure to a string of disasters, including the Exxon Valdez oil spill in Alaska. ING says it relied on faulty advice from Ernst & Young and Swiss Bank, and is suing both in Britain's High Court for $600 million in damages. Both deny that their advice was deficient. *Paula Dwyer*

FAT WALLETS

IT PAYS TO BE A CHANDLER

DONE DEAL: *Otis in 1980*

THE CHANDLER FAMILY IS THE winner in Times Mirror's $2.3 billion sale of cable operations to Cox. Times Mirror, controlled by the 100-plus Chandler clan (stake: 31%), just settled a legal tiff with public shareholders, who griped the family got a sweeter deal. But income-wise, it will soon be clear who remains ahead.

The deal seems equitable—both sides do it tax-free. Non-Chandler investors in Times Mirror, whose properties include the *Los Angeles Times*, swap some of their Times Mirror stock for Cox cable stock. Cox, however, won't pay a dividend. And Times Mirror, to save for new ventures, slashed its quarterly payout by 78%, to 6¢.

The family, headed by patriarch Otis Chandler, 67, isn't swapping for dividend-deficient Cox. That would incur an $81 million capital-gains levy: Terms of family trusts force them to sell non-TM stock. Instead, they get new, dividend-paying TM preferred.

Hence the lawsuit, which the company settled by letting nonfamily investors swap Times Mirror common for new TM convertible preferred, paying 6.5%. The Chandlers' preferred, though, is different. Analysts say its payout, yet to be announced, is likely to be about 9%. Times Mirror says outside investors are made equal by, among other things, the upside potential of Cox cable. □

POLICE BLOTTER

BAUSCH & LOMB'S PURLOINED LENSES

FIRST, BAUSCH & LOMB G hit with a Securities & E change Commission pro over how it accounted f contact-lens shipments. No a high-level B&L manag has been arrested on charg of stealing more than $50,0 worth of lenses from a Roc ester (N. Y.) B&L warehous using a company van. Le division credit manager Ra

BIG HAUL: *$50,000-plus*

mond Quercia and two lo level employees plead n guilty.

Is there a link to the a counting imbroglio? The S is looking into whether B used dubious accounti methods to inflate its yea end 1993 sales figures. T company concedes only min accounting irregularities. A credit manager, Querc would have been involved negotiating payments wi distributors, a key area of t SEC inquiry. But B&L inside say the accounting decisio were made higher up. Mo likely, the arrests are anoth sign of loose controls at t company's freewheeling le division.

Lenses are hard to sell a street corner, so industr execs think the likely buy was an authorized distribut Sources familiar with the si uation say B&L suspects a other manager in the the which may have been the la est in a string. None of t three men arrested wou comment. *Mark Maremo*

REALITY CHECK

THE SOCIAL SECURITY TRUST FUND is sacred, or so say key opponents of the balanced budget amendment. The amendment failed to win sufficient votes for passage on Mar. 2, in part because Senator Byron Dorgan (D-N.D.) and others insist on including a provision protecting the trust fund. Certainly, you will hear this debate again. Dorgan and his colleagues argue that the amendment would force Congress to loot the trust fund for the money needed to bring the overall federal budget into balance.

DORGAN: *Defender of the trust fund*

IN REALITY, the trust fund is already used to mask the real deficit. Social Security now collects $27 billion a year or so in payroll taxes over the amount paid out in benefits. That surplus is effectively used to meet the government's other operating expenses. This trust fund is a fiction: The surplus is carried on the government's books as an IOU. As the first baby boomers begin to retire, around 2013, Social Security will run a cash-flow deficit. Then, with no savings cushion, the feds will have to slash benefits, raise the payroll tax, or borrow to meet increasing retirement payments. *Paul Magnusson*

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Up Front

UNREAL ESTATE

PARIS IS TANKING

NO END IS IN SIGHT TO THE surplus of office space in Paris. Economic recovery is bringing good news for commercial real estate elsewhere in Europe, but not in the City of Light. One big bank, Compagnie Financière de Suez, announced a stunning write-off of $1.5 billion in weak real estate loans. Some Paris financiers hope the Suez example will encourage the banks to face up to their problems and conduct a wholesale write-off of weak loans on Paris office buildings. Worries over bank realty problems helped push the Paris Bourse down 17% in the past year.

ANOTHER PROBLEM: *Ugly signs*

Builders and lenders were slow to deal with the crunch caused by overbuilding because they were accustomed to ever-growing Paris property values. Now, their headaches will linger: The vacancy rate shot up to 9% last year, from 7.5% in 1993. Scott Bugie, an analyst at Standard & Poor's, forecasts an upturn only at decade's end.

Meanwhile, central London's vacancy rate dropped from 11.5% to 8.5%. In Frankfurt, the rate did rise—from 6% to 7.8%—but experts expect vacancies to stay around that level. Europe gets no sympathy across the pond in Manhattan, though. There, the Midtown rate stood at 14.3%. At least it's on the way down, from 16.4% the year before. *Stewart Toy*

AFTERLIVES

HER CREDENTIALS: EX GUV

FORMER TEXAS GOVERNOR Ann Richards has joined a high-powered Washington law firm—even though she's not a lawyer. No matter. She is a big-bucks senior adviser at Verner, Liipfert, Bernhard, McPherson & Hand, helping corporate clients with foreign problems. That may mean dealing with the Mexican officials, with whom she had so much contact before her defeat last fall.

RICHARDS: *Scout for D.C. law firm*

Verner Liipfert is going out of its way to accommodate Richards by opening an office in Austin for her. The legal gig ends a brief fling with advertising for Richards, who couldn't be reached for comment. Along with former New York Governor Mario Cuomo, she hawked Doritos chips in a short-lived campaign.

The law firm is a Democratic Party haven, having recently hired ex-Treasury Secretary Lloyd Bentsen, ex-Senator George Mitchell, and ex-Hawaii Governor John Waihee. It also has long ties to the Lone Star State: Two of its partners were advisers to President Lyndon Johnson. *Gary McWilliams*

DRAWN & QUARTERED

DRINKING PROBLEMS

SHOTS FOR TOTS?

TWO BOOZE FADS—ALCOHOL-laced gelatin desserts and ready-made cocktails packed in test tubes—are drawing fire. The charge: The cheap novelty products, which have as much alcohol as wine, appeal to underage drinkers.

Tumblers are a version of the so-called Jell-O shots that are popular in Generation X bars. Tumblers are sold in package stores. Another concern is the kiddie pricing and packaging: The 24-proof fruit-flavored gelatin sells for about $1 in the same single-serve plastic tubs used for lunchbox snacks. Then there are Tooters, tubes filled with 30-proof, neon-colored cocktails.

Mothers Against Drunk Driving is campaigni against the products. In Cl cago, the Reverend Micha Pfleger, a neighborhood a tivist, is leading a crusade demand that stores near h parish stop carrying the Both Tooter Lingo Liqueu

PFLEGER: *Booze is booze*

of Cocoa Beach, Fla., a Tumblers of Georgetow Mass., insist their produc are intended and market for adults only. *Greg Bur*

THE BIG PICTURE

ELECTION WATCHDOG'S BIGGER BITE

DATA: FEDERAL ELECTION COMMISSION

The Federal Election Commissio used to be more lapdog than watchdog, wasting its time going after tiny infractions such as a lawmaker accepting a gift of macadamia nuts. But recently, it began focusing on bigger cases. Result: a lighter caseload and rising penalty revenue. In 1994, i bagged $550,000 from Prudential Securities for using corporate resources to generate political gifts

FOOTNOTES Existing-home sales/30-year fixed mortgage rate, January, '94: 234,000/7.1%. January, '95: 209,000/9.3%

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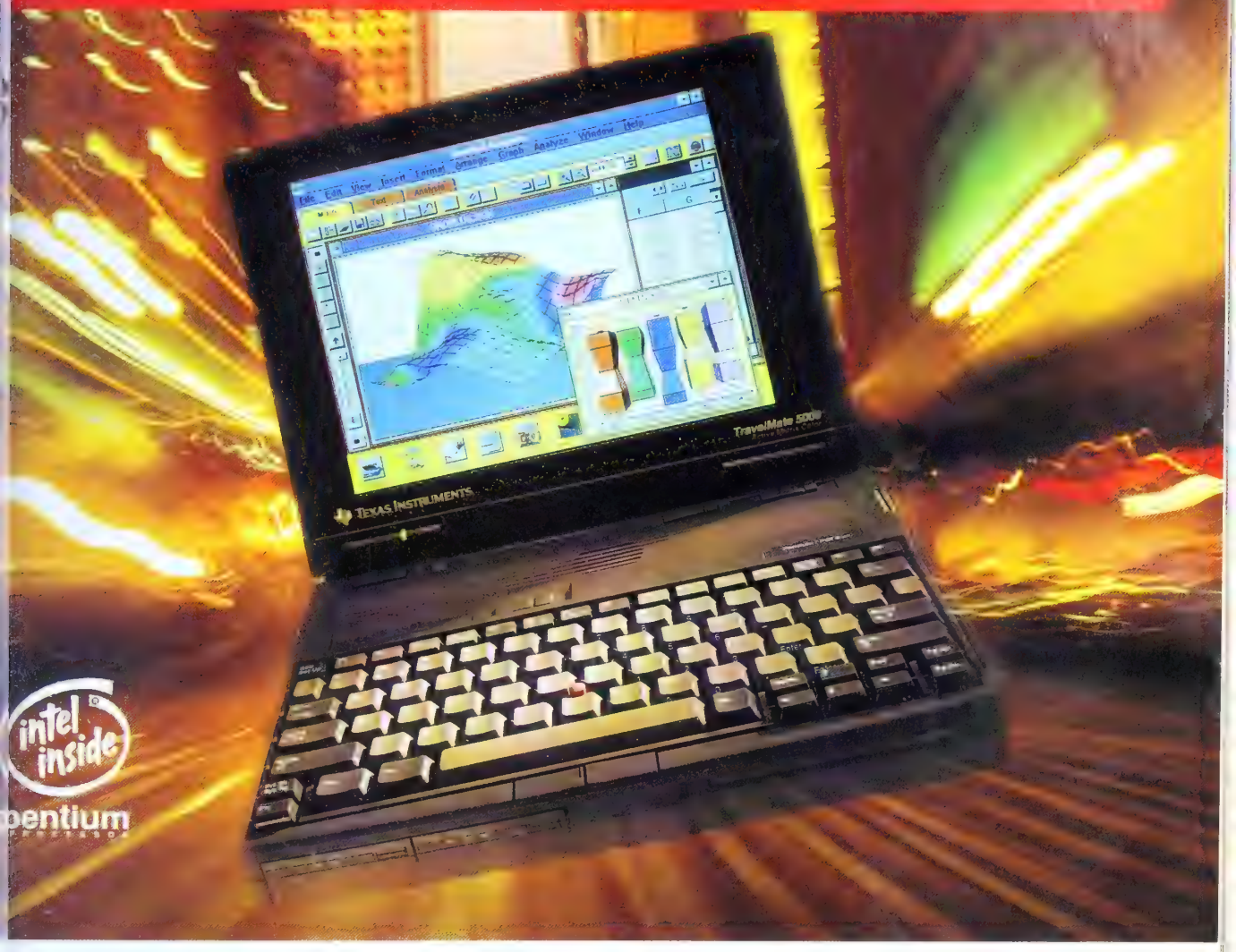

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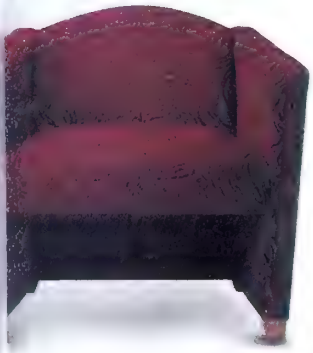

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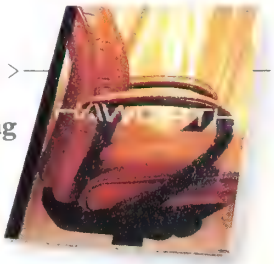

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Readers Report

LARRY PRESSLER: PLENTY SMART—AND PLENTY HONEST

"Senator Dangerfield?" (News: Analysis & Commentary, Feb. 27) was way off the mark. I have known Larry Pressler (R-S. D.) since the day he came to the Senate in 1979. Those of us who know him well know that he is very bright and, indeed, probably one of the most intellectual members of the Senate.

Howard H. Baker Jr.
Huntsville, Tenn.

Editor's note: The writer is the former Senate Majority Leader and was White House Chief of Staff under President Reagan.

Larry Pressler may get no respect, but as his classmate at Harvard Law School, I can attest that he is plenty smart. He is also plenty honest. If you review your ancient files on Abscam, you will note that he once before demonstrated singular integrity. This virtue may be of benefit to us all, as his Senate Commerce Committee looks at deregulation of telecommunications. With so much money involved, we are well served by this honest and decent man.

Howard M. McCue III
Chicago

WHAT'S WRONG WITH MANAGED CARE

"Give Medicare a strong dose of managed care" (News: Analysis & Commentary, Feb. 27) and "Managed care beats Medicare any day" (Editorials, Feb. 27) both fail to mention many of managed care's pitfalls. If more and more of the elderly are forced into health-maintenance organizations, the HMOs will have to find another way to hold down costs, and that will be by rationing care.

Dr. Stephen C. Cohen
President, Physicians Who Care
San Antonio

Mike McNamee, writing on Medicare and its problems, would do well to read BUSINESS WEEK. Your issue of June 27, 1994, had a long story on the woes of FHP International Corp. and other HMOs ("At an HMO giant, critical questions The Corporation). It included a secti on studies by the Center for Health P icy Research, finding that seniors w depended on Medicare received hon care superior to those using an HMO.

Many of us stay out of HMOs becau we are skeptical about the claims managed care. Denial of care is o good way to cut the cost of care.

Leslie N. Land
Rye, N.

As a Medicare recipient, I shou state that Medicare is handled by i telligent representatives who deal wi retirees and the disabled in a helpf and caring system. In my experienc we are not treated so well by manage care firms or their employees.

Santa M. Sha
New Yo

The cheers for managed competiti present only part of the story. Healt care costs for business went down for variety of reasons in 1994, includi managed competition, cost-shifting employees through higher co-paymen and deductibles, and a continuing d cline in the number of employees co ered by their employers.

In my inner-city family practice, regularly see uninsured long-term e ployees of major corporations who a kept at part-time to avoid benefit e penses. Over the past five years, t proportion of Americans with priva employer-based insurance has dropp one percentage point a year, to on 57% in 1993.

Dr. Kenneth B. Fris
MetroHealth Clement Center f
Family Ca
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THE TRUTH ABOUT EYEWASH

In a perfectly normal world, your wr er, Mark Maremont, might have enter a Boston retail outlet last week a found a 12-ounce container of Opti-Fr Disinfecting Solution for $7.99 and tw thirds of an ounce of Opti-Free Rewe

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To 12 million adults this is an ad about a dog. Actually, it's an ad about literacy.

Readers Report

CORRECTIONS & CLARIFICATIONS

"Reviewing Pilgrim's progress" (Readers Report, Feb. 20), in examining the record of Pilgrim Group, should have said that Pilgrim MagnaCap Fund, a growth-and-income fund, outperformed the 25 largest stock funds last year and has risen in 15 of the past 16 years.

"Tax planning: Better not wait on Congress" (Personal Business, Feb. 6) should have identified accountant Carl Duyck's firm as Price Waterhouse.

ting Drops at $5.99. Instead, Maremont walked into his favorite store and found both products at $6.99. He then found a consultant who called this "sneaky marketing." Throw in a clever headline ("Eyeway robbery?" News: Analysis & Commentary, Feb. 27), and Maremont had exposed the rascals to the world.

The truth of the matter is that it costs roughly three-quarters as much, under stringent sterile-manufacturing requirements, to make the smaller bottle as it does the larger one. This is, in turn, properly reflected in our prices to the trade. The further truth is that many retailers discount the 12-ounce Opti-Free Disinfecting Solution because it is a high-volume seller and builds traffic. Sometimes, they also take a larger-than-normal margin on the slower-moving Rewetting Drops. Surely you are aware that these decisions are completely beyond the manufacturer's control.

E. H. Schollmaier
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Fort Worth

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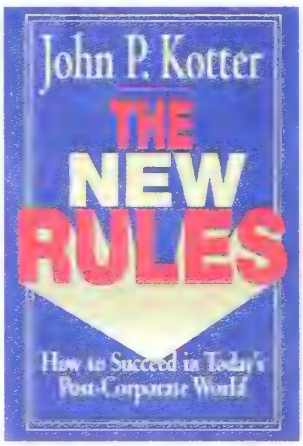
THE NEW RULES
HOW TO SUCCEED IN TODAY'S POST-CORPORATE WORLD
By John P. Kotter
Free Press • 239pp • $25

THUMBING THEIR NOSES AT CORPORATE AMERICA

It will surprise no one that the Harvard Business School's Class of 1974 is doing just fine. Most grads are senior executives or entrepreneurs. Their median income is a quarter-million dollars, and the typical class member is likely to retire with a net worth of $8 million. The vast majority express satisfaction, even enthusiasm, for both work and family.

So, fine. The world has another 800 rich, happy MBAs. The stunner is this: These captains of industry have largely abandoned Corporate America. They're relatively anonymous executives helping to run startups, or consultants behind the scenes of corporate restructurings, or investment bankers snagging their 3% fees to engineer mergers and acquisitions.



The New Rules: How to Succeed in Today's Post-Corporate World reveals and attempts to come to terms with the dramatic disaffection that these people, ostensibly the nation's best and brightest, feel for big-company careers. Harvard Professor John P. Kotter, a thinker on business leadership and corporate culture, has spent two decades tracking the careers of 115 members of the Class of '74. His findings, which mirror the competitive decline of Big Business, are disturbing.

In 1992, 18 years after graduation, just 23% of Kotter's HBS alums had jobs at companies employing 10,000 or more. Most had spurned manufacturing operations for the service sector and the overwhelming majority worked for small employers—those with 1,000 workers or less. Entrepreneurs alone accounted for more than 40% of the class.

This, as Kotter notes, from a school built and largely sustained by big companies. The buildings at Harvard bear such names as Aldrich, Kresge, Mellon, and Morgan; the pinstriped descendants of those corporate titans flood the campus every year with guest speakers and recruiters. "For decades, the press has talked about HBS MBAs as if they were captains of ocean liners or aircraft carriers," Kotter writes.

Clearly, that's no longer where the action is. By 1991, average compensation for '74 grads in small business was $450,000—nearly double that of their medium- and big-business counterparts. Moreover, small-business executives and entrepreneurs had more autonomy and relative power within their organizations, judging by the number of CEOs, COOs, and chairmen among them.

A sizable chunk of the Class of '74—36%, according to Kotter—started out in the big corporations. But many of them fled Corporate America in frustration. "I absolutely hated it," reports one alum whose first job was with IBM. "In a sense, I was a square peg, and they only had round holes." Big employers, these graduates found, were less likely to accept creative thinking and radical solutions, which stultified able managers. At the same time, buffeted by new competition in a global marketplace, such companies could no longer offer the stable, secure career track earlier generations of business grads had enjoyed.

If Kotter had stopped here, he would have had a very impressive, if unscientific, academic paper. Instead, he opted to produce a book. This was a mistake. By inflating his 20 pages of substance to *The New Rules'* 239, he leaps from the startling to the mundane. What begins as an intriguing, original investigation devolves into a catalog of management truisms.

Kotter attempts to turn the experience of the Class of '74 into a new catechism for business survival. To wit: "Success at work today requires capitalizing on the opportunities available in the faster-moving and more competitive business environment that is mostly the product of globalization while avoiding the many hazards inherent in such an environment."

Well, yes—but we knew that. And the other "new rules" aren't much more enlightening. Small and entrepreneurial will be more successful than big and bureaucratic, Kotter tells us. Consultants and dealmakers will do really well. Leadership will best good management. And this pearl: "Effective competition requires many things, especially high standards and a strong desire to win."

It's not that Kotter is wrong. His vision of a workplace undergoing cataclysmic change is dead-on. The dislocating effects of global competition are evidenced daily by news of restructurings and layoffs. For years, managers and their employees alike have scrambled to remain relevant; those who succeed tend to be the flexible, creative sorts who manage their careers, keep learning, and take advantage of new opportunities.

Kotter's analysis of such dynamism is extraordinarily familiar. At the same time, his portraits of these 115 very successful businesspeople are flat, lacking both detail and a human feel. It doesn't help that the alums' names are disguised. And a plea at the book's conclusion for better education in the U.S. comes out of the blue. It adds nothing.

A more important question, meanwhile, goes largely unanswered. If all of Harvard's management talent is rushing to start companies and consult, who's left minding the Big Business store? Visionless, uncreative bureaucrats? Wharton grads? Future American competitiveness will depend as much on Corporate America's ability to generate leaders as on the persistence of entrepreneurship. Perhaps the U.S. will do better with the Class of '94.

BY KEITH H. HAMMONDS

Hammonds, a Harvard MBA, wrote our Cover Story, "Rethinking Work."

TALES OF DISAFFECTED HARVARD MBAs DON'T ADD UP TO A CATECHISM FOR BUSINESS SURVIVAL

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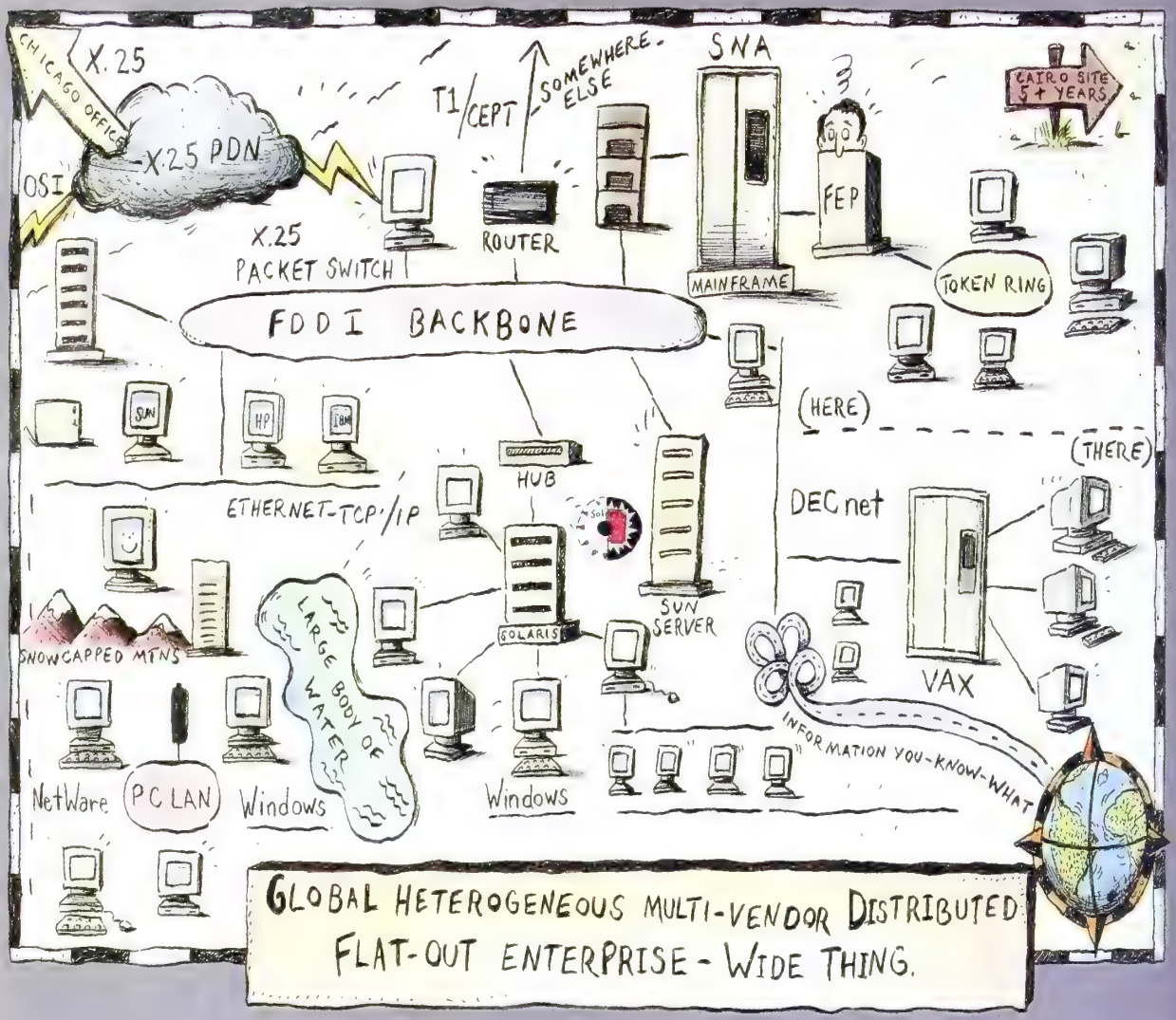

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BY STEPHEN H. WILDSTROM

IBM'S BUTTERFLY IS A BEAUT

Subnotebook computers embody Mies Van Der Rohe's design dictum that "less is more." But while these diminutive machines have grown smaller, faster, and lighter, the human hand has resolutely refused to shrink. The frequent result: great big hands that have to fumble around tiny little keyboards.

Now, IBM, a company not noted for PC innovation in recent years, has come to the rescue with the ThinkPad 701C. True to the notebook's development code name of "Butterfly," an ingenious cam mechanism causes the two-piece keyboard to slide outward and snap together along a zigzag line as the case is opened. The result is an 11½-inch-wide keyboard with full-sized regular keys and oversized enter, shift, and backspace. Except for the lack of a separate number pad, the keyboard is nearly a match for a desktop unit.

SHORT ON PORTS. Impressive as this is, the ThinkPad 701C is no one-trick Butterfly. At 3.7 pounds, it is light even by subnotebook standards. The unit includes built-in stereo sound, best appreciated through headphones. A 14,400-bit-per-second data and fax modem is built in, leaving two credit-card-style slots free for other accessories, even while the modem is in use.

The eraser-like TrackPoint, standard on all ThinkPads, remains my favorite laptop mouse substitute. And the computer is fast. Even though my test unit was powered by a relatively slow 50-megahertz 486DX2, the Butterfly felt like one of the quickest laptops I've ever used, which is apparently thanks to efficient software and a fast disk drive.

WIDE RECEIVER Thanks to an ingenious cam arrangement, the ThinkPad 701C packs a full-size keyboard

The perfect laptop has yet to be built, of course, and the ThinkPad 701C has its share of compromises and faults. To get maximum function into a minimal form, IBM skimped on external connectors. The unit has one external port to hook up either a 3½-inch floppy-disk drive or, with a special cable, a printer. Getting a full complement of ports—including connectors for a printer and a standard mouse, keyboard, and monitor—requires the user to plug in a 2-inch-wide device called the MultiPort. The MultiPort also features a fold-down prop that raises the back of the unit by about ¾ inch for more comfortable typing.

The least expensive Butterfly lists at about $3,800, with a passive-matrix color screen and a 360-megabyte hard drive. The screen is a big 52 square inches, but I found the passive-matrix acceptable—not great. The colors were a bit washed out and the adjustment options were too narrow. The top-of-the-line model, which comes with an active-matrix color display and a 540-MB hard drive, costs $5650.

To be able to claim a maximum battery life of seven hours, the ThinkPad 701C comes with power-management settings that make it extremely inconvenient to use. The screen blanks after 15 seconds of inactivity and the machine shuts down after a minute. With more reasonable settings, I found that battery life was closer to three to four hours.

IBM (800 772-2227) should have lavished as much care on the generous selection of preinstalled software as it did on design. For example, the inclusion of a copy of cc:Mail Mobile is a nice touch for anyone who uses the popular Lotus Development E-mail system. But it was set up for both the wrong communications port and the wrong modem.

These, however, are quibbles and are more than compensated for by trailblazing design. In a field that already includes such innovative subnotebooks as the Digital Equipment Corp. HiNote and Hewlett-Packard Co.'s OmniBook 600C, the ThinkPad 701C has earned a place at the front of the pack.

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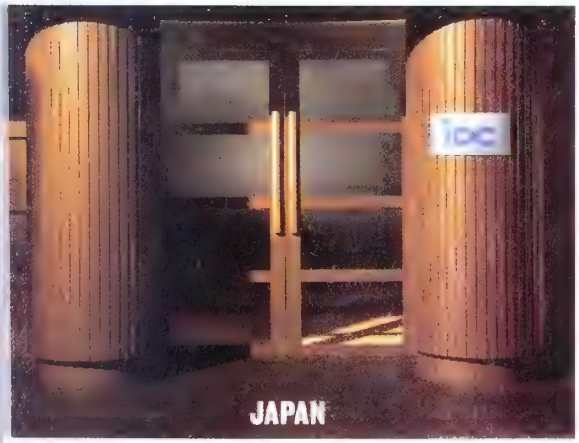

Tele 2 in Sweden, was already involved in a similar project. Both were able to share their knowledge, their technology and even some of their key staff with our friends down under. IDC in Japan also offered valuable experience setting up international services. They too were able to help out.

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BY ROBERT KUTTNER

THE TRUMPED-UP CASE AGAINST DAMAGE AWARDS

TORT WARS: Product-liability and malpractice suits aren't clogging the courts, so why rob consumers of what sparse protections they have?

The House will shortly send to the Senate the tort-reform element of Speaker Newt Gingrich's Contract With America. This is the latest effort in a long crusade based on a supposed crisis of product-liability cases and other tort claims clogging courts, reducing profit margins, increasing insurance costs, enriching lawyers, and otherwise retarding commerce.

This particular measure would have the federal government preempt state standards for tort law—a bizarre posture for a party committed to limiting the federal role and restoring states' rights. Specifically, it would overturn the "strict liability" rule that is now the standard in 46 states, making it far more difficult for injured consumers and businesses to prove negligence and collect damages.

The measure—actually three different bills—would also dilute several long-standing common-law doctrines, including the seller's duty to warn a buyer of product defects and the buyer's right to hold the seller accountable for implied warranties. It would also cap punitive damages and "noneconomic" damages at $250,000, or three times compensatory damages, whichever is larger. A "loser pays" rule would require unsuccessful litigants to pay defendants' court costs. Yet another provision would limit lawsuits in securities cases where investors had been given misleading financial information.

VOODOO STATS. If there were truly an explosion of litigation, these radical changes might be worth taking seriously. But several studies show that this claim is largely trumped up. In 1992, tort cases accounted for only 9% of the civil caseload, and product-liability cases were just 4% of tort filings. In other words, such cases made up only 0.36% of all lawsuits, according to the National Center for State Courts. Excluding asbestos, something of a onetime special case, product-liability actions in federal court have fallen 36% since 1985, *Legal Times* reports. What's growing are ordinary business and personal lawsuits involving disputes over contracts, patent claims, real estate, domestic relations, and so on.

The would-be reformers claim that product-liability cases cost business more than $100 billion a year. But the National Association of Insurance Commissioners puts the figure at about $4 billion, which includes all insurance premiums, legal fees, and damages collected.

The claim that runaway juries order exorbitant damages is also off the mark. Between 1965 and 1990, punitive damages were awarded in just 353 product-liability cases nationwide, of which 91 were asbestos cases. In recent years, the fraction of cases won by plaintiffs has actually been declining.

Another grossly inflated crisis is medical malpractice awards. Medical malpractice insurance amounts to less than 1% of U.S. health costs, and actual awards equal about three tenths of one percent of the nation's total health bill. The claim that doctors are forced to practice "defensive medicine" is also a canard. A study by the Office of Technology Assessment found that less than 8% of diagnostic procedures were performed even partly out of concern for malpractice liability.

OWN WORST ENEMY? One could argue, meanwhile, that regulation heads off a lot of litigation, since it keeps countless unsafe products from reaching the market. Had Exxon Corp. not opposed regulations mandating stronger hulls for its tankers, it might never have suffered the Valdez oil spill and the attendant damage award. But the same sponsors of the Contract With America who are undermining common-law remedies with one hand are bent on dismantling regulation with the other.

Although federal regulatory agencies try to keep unsafe products from the marketplace, they do not always succeed. Some of the most notorious injury cases sprang from private lawsuits, not from regulatory scrutiny. These include the exploding Pinto gas tank, the Dalkon Shield contraceptive device (which rendered some women infertile), and the high-absorbency tampons linked to toxic-shock syndrome. The proposed contract would give drug manufacturers blanket protection from litigation if their products had been approved by the Food & Drug Administration, even if the manufacturer had withheld material information to secure that approval.

In the U.S., the courts are the only system of victim compensation for product injuries. The common law complements regulatory safeguards by awarding damages and thus deterring dangerous products. Conservative legal scholars have long argued that legislated regulation was redundant and inefficient, because persons claiming injury could rely on the common law. Now, the same people want to use legislation to countermand judges and juries.

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

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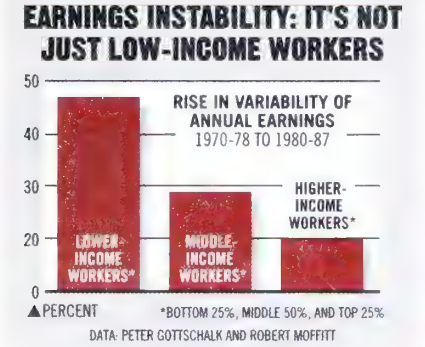
BY GENE KORETZ

WHY INCOMES GREW LESS EQUAL

Fluctuating earnings are a culprit

Perhaps the most worrisome trend in U.S. labor markets in recent decades has been a dramatic widening in the distribution of earnings, as some people's incomes soared while many more lost ground. Most economists have attributed this rise in earnings inequality to such developments as greater global competition, shifts in the economy favoring technological skills, and the waning power of unions.

A study by economists Peter Gottschalk of Boston College and Robert Moffitt of Brown University in the latest issue of *Brookings Papers on Economic Activity* adds a key element to the equation: rising earnings instability. The study compares individual earnings histories over the 1970s and 1980s of representative samples of white male heads of households, a group noted for relative wage stability. It finds not only that the wage gaps between individuals widened by about 40% in the 1980s but also that the degree to which a person's wages varies from year to year increased markedly through the decade.



Theoretically, such an increase in earnings instability could reflect any of a number of developments: the eroding job market for low-wage earners, the shift away from manufacturing to services, the decline of unions, or widespread corporate downsizing. In fact, the biggest jumps in wage instability did occur among the youngest, least educated, and lowest-paid workers.

But the study also found rising earnings instability among older, better-educated, and highly paid workers. And the same trend occurred among both union and nonunion workers, blue-collar and white-collar types, and those who changed jobs and those who stayed put.

Gottschalk and Moffitt estimate that about a third of the rise in earnings inequality in the 1980s was due to greater earnings instability. Their findings suggest that a chill wind is blowing through U.S. labor markets—one that may be both enhancing business efficiency via greater wage flexibility and heightening insecurity in the workplace.

WHERE THE NEW JOBS ARE

Many are at risky fledgling outfits

One source of earnings instability is suggested by a study of job growth in New York during the last expansion by economists Rae Rosen and John Wenninger of the Federal Reserve Bank of New York. The study looked at state employment data from 1984 through 1988 for companies in three categories: those with less than 10 employees, those with 10 to 24 workers, and those with 25 or more. The data were analyzed annually, so that companies that had grown or shrunk were put in appropriate categories in subsequent years.

The results: In all categories, net job growth each year was due entirely to the entry of new companies—that is, existing companies posted more job losses than gains. Further, two-thirds of the jobs were created by new companies with fewer than 25 workers, with the most coming from those firms with fewer than 10. Since the latter group's annual failure rate exceeded 16%, its workers obviously had a low degree of job security.

THE TAX REFUND ISN'T IN THE MAIL

Delays hold up consumer spending

Economist Richard F. Hokenson of Donaldson, Lufkin & Jenrette Securities Corp. claims that it's the Internal Revenue Service, not the Federal Reserve, that deserves much of the credit (or blame) for the current slowdown in consumer spending. He points to an unprecedented delay in the mailing of tax refunds to individuals.

In a normal year, close to 90% of annual tax refunds, which hit $87 billion last year, is disbursed from February through May. For this fiscal year, th IRS projects that refunds will be u 9.4%. Yet through Feb. 25, cumulativ refunds were running 23% behind fisc 1994 and about $6.13 billion below wha Hokenson says should be expected.

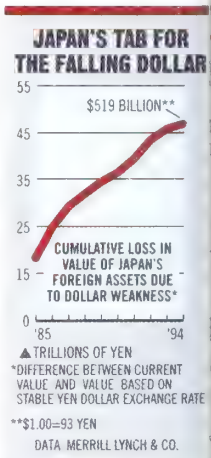
On an annualized basis, Hokenson fig ures that's a big piece of change. Th main reason for the shortfall is that th IRS is reviewing as many as 7 million re turns to crack down on fraud and verif the validity of claims for the earned-in come tax credit. But eventually the re funds will start to flow, and when the do, Hokenson expects consumer deman to rebound.

JAPANESE EYE THE BUCK WARILY

They pay dearly when it dips

If anyone can shore up the sinkin dollar in today's tempestuous foreig exchange markets, it's the Japanese. Af ter all, Japan is the world's largest cred itor, just as the U.S. is the world's larg est debtor. All that's needed is for th Japanese to start plowing their hug dollar trade receipts into U.S. bond or other long-term investments, as the did through much of the 1980s.

Don't bet on it, says William P. Ster ling of Merrill Lynch & Co. The prob lem, he notes, is not just that earth quake damage is biting into Japan' surplus savings, but also a weak dolla fosters "credit revulsion" among Japan's investors.



Just as Americans saw the dollar value of their Mexican holdings plunge after the peso collapsed, many Japanese have seen the yen value of their U.S. investments erode as the dollar has fallen ever lower against the yen. Indeed, if Japan's dollar investments over the past decade were worth the same in yen terms as they were when they were first made, their cumulative value today would be some 47 trillion yen, or $519 billion, higher (chart). The upshot is that many "burned" Japanese investors are likely to remain less than eager to commit their dollars to long-term U.S. assets.

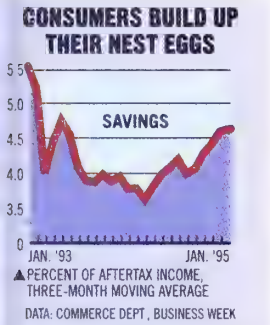
BY JAMES C. COOPER & KATHLEEN MADIGAN

ARE CONSUMERS FINALLY BENDING TO THE WILL OF THE FED?

U.S. ECONOMY

Consumers shopped and shopped last quarter, and now hey've dropped. The question for the outlook is: Will hey stay down? Or is the first-quarter lull in spending nly a breather?

Since consumers are two-thirds of the economy, their pending behavior this spring will be crucial to the 'ederal Reserve's efforts to slow growth down to a oninflationary pace. If the first-quarter moderation ontinues, the chances for a soft landing rise, and no nore interest-rate hikes may be needed. But if shopers get their second wind, the Fed will tighten furher—and risk squeezing the economy too hard.



The arguments that the weakness is only temporary range from fundamental to cosmic. Some analysts go so far as to blame weak spending on the "O.J. effect," as people stay home to watch the O.J. Simpson trial. A similar transitory lull accompanied the TV coverage of the Persian Gulf war.

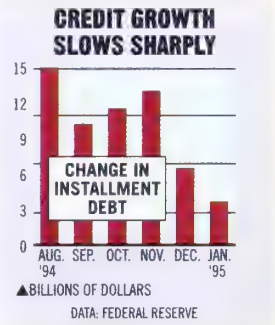
A more down-to-earth argument: Income growth remains strong. Real aftertax ncome rose at an annual rate of 7.7% in the fourth uarter, and in January it began the first quarter by rowing at a 3% annual clip.

Incomes appear set to outpace spending for the secnd quarter in a row. And if job growth rebounds rom its weak January showing, sturdy income growth ould pump up spending into the spring. One hint of hat: Retail sales in the first week of March got off to a ood start, according to the survey by the *Johnson Redbook Service.*

BUT AS JOHNNIE COCHRAN might say, it's not an pen-and-shut case. For now, at least, the weight of the vidence is that the consumer sector is finally bending o the will of the central bank—with half of the Fed's ast rate hikes yet to be fully felt in the economy.

The sales data and reports from retailers have looked veaker since Thanksgiving. Real consumer outlays for oods and services posted no gain in January, following slim 0.1% increase in December. Although purchases f services and nondurable goods such as sweaters nd restaurant meals rose, spending on credit-sensitive lurable goods dropped 1.5%, the sharpest monthly deline in nearly two years.

Sales of cars, trucks, and parts accounted for most of the January weakness in durables. But even excluding that sector, buying of other big-ticket items still fell. Furniture sales declined for the first time in a year, a clear example of the effects of the housing slowdown.



Consumers' tepid start for the quarter means that real consumer spending began the quarter at an annual rate of only 1.1% above the fourth quarter. And in February, big retailers reported another month of soft sales, and car buying weakened. U.S.-made cars and light trucks sold at an annual rate of 12.7 million, down from 12.9 million in January. As a result, the Big Three carmakers have recently made further cuts in their output schedules for the first quarter.

All this means that first-quarter consumer spending will be hard-pressed to grow by half of the fourth quarter's robust 5% clip. That's why overall economic growth this quarter is slowing from its 4.6% gallop in the fourth quarter.

THE CONSUMER SLOWDOWN does have two benefits, however: Households are saving more and borrowing less (charts). The saving rate—personal savings as a percentage of aftertax income—has moved up in recent months, thanks to the strong income growth.

Some of that extra cushion may reflect job anxiety among consumers, as noted in the February consumer confidence report. Already, the trend in initial jobless claims is starting to move up a little. And in January, the Conference Board's index of help-wanted advertising fell sharply to 131 from 139 in December. Both tend to foreshadow movements in the labor markets.

Consumers may also be using the extra income to pay old bills. Wealthy households still face the second installment of the tax increase of 1994. And higher rates are placing an increasing drain on budgets, as the cost of variable-rate mortgages and installment debt adjusts upward.

Households added to their installment debt during last year at a pace that has not been seen since the debt explosion of the 1980s. But now, consumers are beginning to show more restraint. Installment debt grew by only $3.7 billion in January. That pace, down from $6.6 billion in December and from $13.2 billion in

ERIC HOFFMANN

November, was the slowest seen in a year and a half.

One reason consumers are less willing to take on new debt: their heavy burden of existing obligations. Outstanding installment credit stood at 17.7% of disposable income in January, close to the peak level reached in 1989.

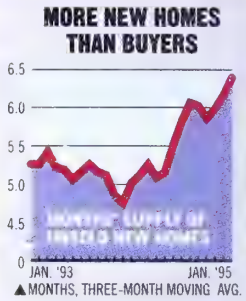
In addition, homeowners with adjustable-rate mortgages are digging deeper each month. For example, a 5%, 30-year loan of $100,000 that adjusts to 7% adds $125 to a household's monthly bills.

Some homeowners are struggling already. The Mortgage Bankers' Assn. reports that the delinquency rate on mortgages rose to 4.15% in the fourth quarter, from a 21-year low of 3.9% in the third. The MBA blamed higher ARM payments for the rise and projects that the uptrend will continue.

IN LIGHT OF higher mortgage rates and slower consumer spending in general, the resiliency of new-home sales is curious. New single-family homes sold in January at an annual rate of 679,000, up 3.8% from December. Although the data tend to be revised a lot, January's rate was not much different from the 676,000 sales pace of 1993—the best housing year since 1986. Indeed, new-home sales slipped very little in the past year, even though mortgage rates are up by more than two percentage points and the sales of existing homes have been falling since late 1993.

Consumers may be entering the new-home market by buying smaller or less luxurious houses, and by opting for adjustable-rate mortgages that typically lower the cost of monthly payments. The percentage of home buyers going the adjustable route climbed to 55% in December, compared to less than 20% in 1993.

Still, signs of a slowdown in housing are evident. For one thing, rising mortgage rates, both fixed and adjustable, mean more consumers cannot afford to buy a house. After rising in January, mortgage applications for the purchase of a home fell in February. And builders seem to have overestimated demand recently. Since November, the supply of unsold homes has stood at 6.4 months, the highest level since 1991 (chart). Excess inventory means builders will start fewer new units.



DATA: COMMERCE DEPT., BUSINESS WEEK

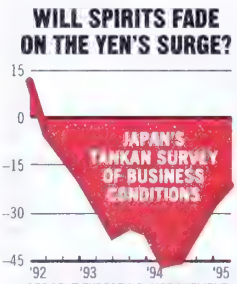
The decline in home construction, already apparent in the second half of 1994, will be more of a drag in 1995. At the same time, larger mortgage payments, burdens of some credit-card bills, and higher taxes will leave less money for everything else that consumers may want to buy. And this new penny-pinching will pave the way to a slowdown in the overall economy this year.

JAPAN

A SLOW CRAWL BACK TO LIFE

Japan's recovery continues, even with the disruptions from the Kobe earthquake and soaring yen. But the upturn faces a decidedly uphill climb.

The Bank of Japan's Tankan survey, taken in February, shows that businesses are less gloomy about economic prospects. True, the net reading, which subtracts the percentage who view conditions as poor from those who answer positively, remains in negative territory. But the current –21% is better than the –27% reading of November, and the dismal –46% of a year ago (chart).



DATA: DATASTREAM INTERNATIONAL LTD

Nonmanufacturers remain cautious because of a lack of domestic pricing power, although this "price destruction" is also hurting the materials industry. Manufacturers of finished goods are more upbeat, particularly about their future output, profits, and exports.

The yen's surge, which began after the survey, may soon dim a bit of this optimism (page 46). Already, some private economists are paring their 1995 forecasts, with the economy growing closer to 2% than 3%. The reason: The strong yen will hurt exports, which have added to growth even as other sectors lag.

Specifically, capital spending, a recovery leader in the past, still shows few signs of turning up. The Tankan survey says large companies plan a 1% cut in business spending for the fiscal year starting in April, after a 5.6% drop in this fiscal year. And the companies said 24.5% of their capital budgets will be spent on foreign facilities.

Consequently, consumer spending will have to be the main source of economic strength. The January job news was positive, but hardly robust. Employment grew by a small 0.6% from December, wage growth was up slightly, and the ratio of job offers to applicants inched up to 0.66, from 0.64.

Still, healthier labor markets and a bit brighter business sentiment are good signs for Japan's recovery. But the mild improvement in the data and the yen's new strength indicate that the upturn will move in fits and starts, rather than at a smooth upward pace.

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1994 Study

CONGRESS

ONWARD, BUDGET SOLDIERS

Republicans press ahead with cuts despite dissent in the ranks

Call them heartless. Call them visionaries. But never call them quitters. Despite a crushing defeat for the balanced budget amendment—the centerpiece of their Contract With America—House Speaker Newt Gingrich (R-Ga.) and his lieutenants are pressing ahead with their ambitious agenda to slash government spending and cut taxes.

The House is set to pass $192 billion in tax breaks and a like amount in spending reductions within the next three weeks. And by May, Gingrich vows to produce a second plan to cut spending by $1.2 trillion more and to eliminate the budget deficit by 2002. Without the mandate of a balanced budget amendment, he has aggressively grasped the falling dollar as a symbol of the need for dramatic spending cuts. "The dollar has been sliding against the yen and the mark ever since the amendment went down," Gingrich told Fox Broadcasting Co. on Mar. 8.

COOL-OFF. But boldness doesn't always bring success. Deep divisions threaten the GOP's ability to fundamentally remake tax and spending policy. "We on the House side are going to report a budget that gets to balance in seven years, period," Gingrich said. But, he conceded: "You do hear people sort of saying: 'Well, let's back off. Now, we don't have to do it.'"

Without a legal requirement for balancing the books by 2002, some deficit-cutting steam has gone out of the GOP rank-and-file. And moderates wonder whether the party isn't making the bigger job tougher by pushing costly tax cuts. "My No. 1 priority is to get the budget into balance," says Representative John Porter (R-Ill.).

In the Senate, GOP leaders have all but given up on major tax reduction this year. In April, Senate Budget Committee Chairman Pete V. Domenici (R-N. M.) is expected to unveil a $450 billion deficit-reduction plan that includes tax cuts far more modest than the House version. That has some House Republicans wondering why they should vote for painful spending cuts when the tax breaks they are supposedly financing never will become law.

But aggressive House freshmen insist the amendment's defeat only redoubles their determination to fulfill their balanced budget promise. Says Representative Sam Brownback (R-Kan.): "I'm for doing all the big cuts up front, now. And Gingrich may have found a new club in the falling dollar. He got some support on Mar. 8 from Federal Reserve Board Chairman Alan Greenspan, who told Congress that a "key element in boosting the dollar "is to address our underlying fiscal imbalance convincingly."

The White House, which insists there is no link between fiscal policy and the

DUELING AXES

Where the GOP would strike

1995 ESTIMATED SF IN BILLIONS OF DO
FOOD STAN $27
SCHOOL $25
FOREIGN A $20
WELFAR $18
SCHOOL LUN $6

›llar's fall, is waiting for Republicans to ake agonizing program cuts—now ade more difficult without the political ›ver of a constitutional mandate. "It ould have been easier with a balanced ıdget amendment," concedes Senator ıil Gramm (R-Tex.). "It's going to be a rictly partisan matter now. But we ıve no choice but to get the job done."

:HO CHAMBER. And so, by mid-March, e Ways & Means Committee will ap-'ove a hefty tax cut. The foundations the package echo the Contract: a child edit for families earning under $200,000 :d reductions in capital-gains taxes hieved by halving the rate on gains and lexing profits for inflation. The bill also ll restore individual retirement account ‹ breaks to most Americans and offer a w depreciation scheme for business in-stment. In addition, Committee Chair-ın Bill Archer (D-Tex.) wants to phase t the alternative minimum tax over five ars. But he would limit capital-gains lexing to individuals and to assets held · at least three years. The corporate ins rate would be set at 25%.

> "It's going to be a strictly partisan matter now," says Senator Gramm

Still, House Republicans have vowed to finance all tax cuts with offsetting spending reductions. A big chunk will come from radical reforms in social-welfare programs. Over the next five years, $16 billion would be cut from planned spending for food stamps, $11 billion from Supplemental Security Income, $5 billion from Aid to Families With Dependent Children (AFDC), and $1 billion from school nutrition.

But far more spending restraint will be needed—much of which would have to come from programs dearer to GOP constituents. House Budget Committee Chairman John R. Kasich (R-Ohio) continues to shop ideas among his Republican colleagues—such as restructuring Medicare and eliminating the Education and Energy Depts. Even the Pentagon could take some hits.

To make it easier for lawmakers to trim programs, Kasich wants to ditch the current system of "baseline budgeting," which automatically increases annual program budgets by factoring in inflation and demographic changes. Thus, when the growth of spending is curbed, critics decry the change as a "cut." Even with the accounting overhaul, though, Republicans wonder how much trimming they can do.

Indeed, GOP leaders now seem much more cautious about deficit reduction—partly because of the budget amendment's failure, but also because of sharp criticism they have received for trying to curb social spending. Now, a number of Republicans acknowledge that it may be difficult to achieve serious deficit shrinkage without the support of Senate Democrats and the White House. In the Senate, says Packwood: "We don't have enough Republicans" to balance the budget.

RUNNING IN PLACE.. For now, the Administration seems content to watch the GOP take the heat for politically unpopular spending cuts. Many White House aides bitterly recall that not a single House Republican supported Clinton's five-year, $450 billion deficit-reduction plan in 1993. "We got it done two years ago without them," says one Administration official: "Let's see them do it this time." However, some Administration aides hint that the hard line might soften in the coming months, and the White House could begin to work with Congress to cut federal spending more deeply. "That's still an open issue," says one.

Congressional Republicans are playing a high-stakes game. No one really knows how the public will respond to a dramatic shift in spending priorities. And balancing tax and spending cuts makes the job even tougher. If the GOP sticks with generous tax cuts, deficit-cutting becomes much harder. But if Republicans ditch the tax reductions, they will have only austerity to sell in the next election. And as Bill Clinton learned last November, when it comes to the deficit, no good deed goes unpunished.

By Howard Gleckman, with Richard S. Dunham and Mary Beth Regan in Washington

Where the Democrats would chop

1995 ESTIMATED SPENDING IN BILLIONS OF DOLLARS

DEFENSE	$272
VETS' BENEFITS	$38
TRANSPORTATION	$37
NASA	$14
FARM SUBSIDIES	$13

The GOP-dominated House will pass version of the tax bill knowing little l survive the Senate Finance Com-:tee. Its chairman, Bob Packwood (R-e.), hasn't shown much interest. Says nmittee member Alan K. Simpson ·Wyo.): "All of this is chicken feed." e Senate bill could end up looking ch more like Clinton's proposed $63 ion tax cut than the House version.

LOFTY PERCH: *Iran is now the world's No. 3 oil exporter*

OIL

EMBARGO? WHAT EMBARGO?

Isolating rogue states is tough. Look at Conoco's Iran deal

The White House may think Iran is a hotbed of terrorism, and Congress may want to stiffen sanctions against the Muslim state. But to Conoco Inc., Iran is an opportunity it can't pass up.

That's the message the energy company sent with its Mar. 6 deal to develop two big offshore oil fields in the Persian Gulf. The State Dept. is howling, but Conoco so far is holding its ground. The company's response: The deal is legal—and company negotiators say they kept the government informed of the talks. Wall Street figures the project is worth $1 billion.

The Conoco deal is more proof that Washington's attempts to isolate and punish the rogue regimes of the Middle East—Iraq, Iran, and Libya—are crumbling. On Mar. 5, just when the Conoco deal was being wrapped up, France opened up a diplomatic office in Baghdad, becoming the first member of the coalition that beat Saddam Hussein to do so. Meanwhile, European companies are rushing in to cut new energy deals and construction contracts with both Iraq and Iran. "The U.S. government is going in one direction and the Europeans in another," says Max Becker, an executive at engineering giant ABB Asea Brown Boveri (Holding) Ltd., which is building a power plant in Iran.

If the pace of deals keeps up, the rogue states could escape economic isolation—and U.S. policymakers will have suffered a major defeat. Although a U.N. ban on business dealings with Iraq remains in place, companies are planning projects in Iraq that will go into effect the minute the embargo is lifted. As the ventures pile up, they are building pressure to suspend the embargo and eventually lift it.

RUSSIAN REACTOR. For Iran, no U.N. ban exists, so the U.S. can only plead with its allies not to do deals there. But cold economic facts are driving companies to work with these regimes anyway. Iraq's 100 billion barrels in proven oil reserves are th world's largest afte those of Saudi Ara bia. Iran is now th world's third-bigges oil exporter.

Right alongsid the European Russian companie are scoring contract in both Iraq an Iran, ranging fror oil deals to nuclea reactors. Russia Zarubezh Oil & Ga Construction Co. hi pay dirt in earl March when i signed a $1.5 billio draft contract fo work in Iraq's o patch after the embargo is gone. Th Russians also are helping build fou nuclear reactors in Iran. Japanese an South Korean companies are scoutin new business, too.

But it's the European initiatives tha hurt Washington the most. Germany' export credit agency soon will be offer ing hundreds of millions of dollars o export guarantees to German compa nies doing business with Iran. Italy an France are likely to do the same. Suc deals directly challenge the U.S. polic of "dual containment," under whic Washington has argued that economi isolation of Iraq and Iran—and to lesser extent Libya—would effectivel reduce the capabilities of those regime to finance terrorism or thwart th Mideast peace process.

DEAF EARS Soon after U.N. Representative Madeleine Albright lobbied world leaders to keep shunning Iraq, France stationed an envoy in Baghdad

Pressure on the policy from Euro pean companies is growing apace. Fo instance, preliminary deals worked ou recently in Baghdad by France's tw main oil companies, CFP-Total and El Aquitaine, could soon give France stake in key oil reserves in southwes Iraq. "Elf and Total want to profit whil Iraq is weak," says Pierre Terzian, hea of Paris-based Petrostrategies. "Onc sanctions are lifted, their margin o

aneuver will be much narrower." Such reasoning is deeply disturbing to ashington policymakers. U. S. officials e pressuring Europe and Japan to thhold trade and investment financing Tehran, in particular, as a way to pelize the Iranians for strong anti-Isel, anti-U. S. policies. By and large, it sn't worked. "Getting action against an is harder than it is against Iraq," mits one senior State Dept. official. ou're just not dealing with a renede aggressive dictator like Saddam." Even big U. S. oil companies trade th Iran, as long as the oil does not go the U. S. Exxon Corp., for example, one of the biggest buyers of Iran ude oil, which goes to company reeries in Italy, France, and Germany. nator Alfonse M. D'Amato (R-N. Y.) is roducing legislation that would make llegal for Exxon or any U. S. compato buy Iranian oil for any purpose. t a good idea, says Dennis J. O'Brien, ad of strategic planning at Caltex Peleum Corp. in Dallas: "This [bill] will ve zero effect on Iran and will ham· U. S. business."

TELLITE PHOTOS. The effects on U. S. fits could be even broader. Iran's inasingly close ties with Russia and ina could translate into Americans ng shut out of the emerging mars of central Asia. Washington has bied the World Bank not to help fice proposed oil-and-gas pipelines that uld cut across Iran to the central an republics of the former Soviet ion. But U. S. companies worry that itical interference could jeopardize rgy deals with Kazakhstan, Azerbai, and Turkmenistan.

Still, the U. S. is not giving up. deleine K. Albright, U. S. Represenve to the U. N., recently visited algovernments to show satellite pho of new military construction lertaken by Saddam Hussein. The w-and-tell was meant to maintain port on the Security Council for coning sanctions against Iraq. Yet an oming U. N. report is expected to that Iraq has destroyed its most al weaponry, thus meeting condis for suspending the embargo.

As for Conoco, a U. S. official says if the company violated any techl rules in its Iranian deal, it may pressured to back off. "It's a conit struggle to get the cooperation of iness and the allies," the official says. U. S. government may soon need a ceful way to ease back from the ggle—or face having the world simignore it.

By John Rossant in Rome, with er Galuszka in Moscow, Ruth Pear at the U. N., and Amy Borrus in shington

TRADE

SEND IN THE NEXT BATCH OF TRADE HONCHOS, PLEASE

In the hunt for a GATT commerce czar, it's back to square one

WANTED: Superpower seeks dignitary to mediate spats affecting 80% of the world's commerce. Celebrity preferred. Must be free-marketer, welcome on three continents (minimum). Send résumé to 1600 Pennsylvania Ave.

Preposterous? Not really. On Mar. 7, U. S. Trade Representative Mickey Kantor announced that the candidates backed by Europe and Asia for the post of director-general of the World Trade Organization (WTO) don't have American support. And he called for a sort of global Star Search to find a leader for the international organization established by the new General Agreement on Tariffs & Trade.

SALINAS: OUT

Once the top pick, he was hurt by the peso crisis and a scandal involving his brother

The immediate impetus for the move was the withdrawal of Washington's first choice, former Mexican President Carlos Salinas de Gortari, who has been tarred by Mexican scandals. But Kantor's bid to delay selection of a WTO chief also may signal a waning interest in the agency within the Administration. Growing isolationist sentiment aside, the Clintonites now believe that bilateral talks, which produced the recent trade deal with Beijing, may reap benefits faster than the unwieldy WTO. "We are starting to worry that the WTO can't act fast enough to deal with the problems we're faced with," says one senior Administration official.

KANTOR: PRESSURED

The Trade Rep's bid to delay a choice may mean the Clintonites are losing interest

DROPPING THE BALL. Washington's clumsy pullback, however, has riled European Union and Asian nations, which fear it could undermine an organization that's already off to a shaky start. "This impasse is totally unnecessary," sniffs one EU official. "It's ironic that the U. S. fought so hard for a WTO, and now it just drops the ball."

But with Salinas now being blamed for the Mexican economic crisis—and caught up in allegations that his brother was involved in a murder plot last year—Washington has no palatable candidate to back. The EU favorite, former Italian Trade Minister Renato Ruggiero, isn't enough of a free-marketer to satisfy the Clintonites. And Tokyo's top choice, Korean ex-Trade Minister Kim Chul-Su, was leader of a country whose economy is largely closed. "It's not just the people involved, but the systems they represent," explains Jeffrey E. Garten, the Commerce Dept.'s deputy secretary for international trade. "We're talking about differing concepts of how world trade should be managed."

So does the U. S. have any better ideas? Hardly. Former Dutch Prime Minister Ruud Lubbers is popular with American business because of his adherence to free-trade economics, but some Asian nations balk at his country's colonial past. The Administration's favorite fantasy is that a celebrity with solid trade credentials—former Canadian Prime Minister Brian Mulroney or ex-British Prime Minister Margaret Thatcher, for example—might volunteer.

But that's unlikely. W. Bowman Cutter, deputy director of the National Economic Council, suggests that an acceptable candidate might emerge from Latin America. Possibilities: Argentine Trade Minister Domingo Cavallo and Enrique Iglesias, Inter-American Development Bank president.

In the meantime, the U. S. hopes to persuade GATT Director-General Peter Sutherland to stay on at least through July—and possibly longer, if the search doesn't yield results. Unless an acceptable candidate comes forward, the Clintonites say they are in no hurry to see the job filled.

By Douglas Harbrecht, with Amy Borrus, in Washington

(TOP TO BOTTOM) PHOTOGRAPHS BY KEITH DAHLMILLER SABA; DAVID BURNETT CONTACT

BUSINESS SCHOOLS

GOODBYE, MR. CHIPS IT AIN'T

Harvard's B-school dean is leaving. Some think it's about time

When future generations of Harvard business school students debate the qualities of leadership, what will they make of the rocky, 15-year administration of Dean John H. McArthur?

The introverted, uncharismatic McArthur, 60, announced on Mar. 6 that within six months, he expects to quit his job as head of the world's richest and most powerful B-school. McArthur will leave a mixed legacy: While praised for his adept fundraising, he has drawn fire for the sluggishness with which Harvard has updated its MBA curriculum—years after rival schools launched major renewal efforts. Harvard's $40 million executive education business also has lost market share, and recent efforts to revamp the school's $60 million publishing operation led to embarrassing management turmoil.

"COMPANY MAN." Last year, Harvard fell two places, to No. 5, its lowest finish ever, in BUSINESS WEEK's biennial ranking of the best business schools. "There are a lot of parallels between Harvard and General Motors," says the former dean of a rival B-school. "John is a conservative company man who leaves Harvard in a catch-up mode rather than a leadership mode. That is sad."

Indeed, the timing of McArthur's announcement surprised many faculty and students. In December, after a three-year review, Harvard's faculty finally approved a sweeping reform of the MBA program. Some of the most critical changes, which include reduced class sizes and a 16-month MBA track, won't be implemented in a pilot program until next year. "It's hard to imagine the head of IBM resigning after announcing radical changes and then leaving it up to someone else to implement," says Nicholas A. Grouf, a second-year MBA student.

While supportive of the changes, however, McArthur did not lead the effort nor serve on any of its numerous committees. Instead, he delegated the job to other administrators and faculty, many of whom hold him in great affection despite his mixed record. "We are very sad to see him leave, but on the other hand there is a sense of excitement," says Robert Simons, a Harvard professor. "The commitment to continue the renewal process runs deep."

McARTHUR: TOO KEEN ON BRICKS AND MORTAR?

MONEY MAN The business school's endowment rose sixfold under McArthur, but its curriculum lost ground to more adaptive rivals

Who will finish the job now? Although Harvard President Neil L. Rudenstine says the university will seek candidates from inside and outside the school, most observers are placing their bets on a handful of Harvard insiders, such as Kim B. Clark, a popular professor of technology and operations, global business expert Chris Bartlett, or Leonard A. Schlesinger, a senior associate dean who has been a major player in the curriculum review. "I'd be surprised to see a radical departure in the leadership of the school," says Colin Blaydon, a former Harvard professor who is now dean of the Amos Tuck School of Business at Dartmouth College.

Many at HBS are hoping for a substantially more visible leader than the publicity-shy McArthur. When Harvard arranged last year to use America Online for its internal communications network, some MBA candidates asked the dean to establish an E-mail address. "The dean just flat-out refused because he thought he would get too many letters to deal with," complains one student. School officials confirm that McArthur is not online.

Also embarrassing has been the well-publicized troubles behind McArthur's efforts to get more revenues from the school's publishing operations. The school wooed an outsider, former John Wiley & Sons Inc. President Ruth E. McMullin, to head up the operation in 1991, handing her a compensation package of nearly half a million—almost twice as much as the president of Harvard University. She lasted just over two years, going through three editors of *Harvard Business Review* during her tenure.

MORE PROFS. To be sure, the man who arrived on campus from Vancouver as an MBA student in 1957 and never left has compiled some significant achievements since taking over in 1980. On McArthur's watch, the school's endowment rose nearly sixfold, to $600 million, from $106 million, as annual gifts jumped to $30 million, from $8 million. He also increased endowed professorships to 8[illegible] from 50 in 1980.

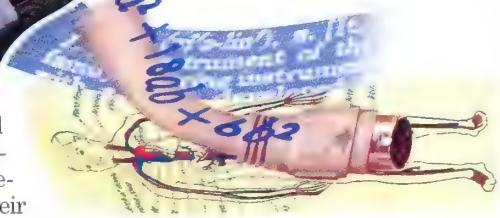
Yet some argue that McArthur has been more focused on Harvard's bricks and mortar than on its intellectual substance. He invested some $200 million in new buildings and infrastructure and paid meticulous attention to the school's appearance, insisting that the grounds be perfectly manicured. All the while, HBS's reputation has been slipping. "McArthur put the school on a solid financial footing, but now it's time for a new leader with a new vision," says Willy Walker, a second-year MBA student. At the very least, it's probably time for a dean who will agree to use electronic mail.

By John A. Byrne and Lori Bongiorno in New York

SAFE PASSAGE N CYBERSPACE

heft-proof credit-card travel ıeans cybertrade can take off

Viewed from one angle, it's just a new way to sell a bottle of wine. From another, Wells Fargo Bank's cent alliance with cyberspace wine erchant Virtual Vineyards is a key rn in a banking revolution that will ck the industry into the next decade. Think that's hyperbole? Here's why s not: In February, Wells became the st U.S. bank to provide a secure sys-m for credit-card purchases over the Internet. Instead of phoning or faxing their



dit-card numbers or sending m naked over the Net, Virtual ıeyards customers who order spe-lty wines direct from the vine-d's electronic catalog transmit their d numbers cloaked against thievery l fraud with a secret code.

Secure card-payment systems carry ɔrmous implications for commerce on Internet. So far, purchases made on ıre dribbling in at under $100 million ear. But the convenience and pro-tion of secure payment systems is ɔected to detonate an Internet ex-sion. Market researcher Killen & As-iates predicts that $300 billion worth goods and services l be traded over the ernet in 2000.

BRICKS. Not only t, secure payment tems will enable a ɔle array of financial nsactions to take ce on public net-ks. That should ke it easier for ks to expand their ıchises to other es and regions—not ɔuilding and acquir-bank branches, but turning their cus-ers' PCs into auto-ed teller machines. ying bricks and mortar is a fatal distraction" for banks, says KPMG Peat Marwick banking consultant Richard Crone.

Not for Wells, whose stock has gained 167% in three years. In part, that's because Wells avoided expanding outside California, while other regionals went on expensive, dilutive acquisition sprees. Instead of overpaying for branches, "we can be current on the evolution of computer networking at far less expense," says Wells President William F. Zuendt.

First, Wells must prove itself on the Net. In April, with a small electronic-payments software startup called Cybercash, Wells plans to expand its card-payment system to 20 more merchants, with full rollout set for May. Wells hopes to draw many of its 26,000 existing card merchants and attract new ones.

BIG GUNS. Wells isn't alone. BankAmerica, KeyCorp, Norwest, and others say they plan to offer similar systems. MasterCard has linked up with a small company called Netscape Communications Corp., and Visa has given the industry pause by joining with Microsoft on a payment system to be introduced later this year. Startups such as First Virtual Holdings and Open Market Inc. have offered secure systems for months.

But most of the industry is moving slowly into networked banking, in part because many execs were burned by costly, fruitless moves into home banking a decade ago. They still see plenty of computerphobic customers, and they remain skeptical that even the techno-savvy will trust the Net with their hard-won earnings, security systems or not. But these days, PCs outsell TVs, and nonbank rivals are trying to take banks' business away. "Too many bankers have their heads in the sand," says William M. Randle, director of strategic planning for Huntington Bancshares Inc. in Columbus, Ohio. That's a dangerous place to be, especially when those sands are shifting.

By Russell Mitchell in San Francisco

NET PLASTIC

Internet payment systems in the works

WELLS FARGO/CYBERCASH In February, the venture launched a secure system with retailer Virtual Vineyards. Full rollout is set for May.

MASTERCARD/NETSCAPE The bank-card marketer and the developer plan to test a system by summer.

VISA/MICROSOFT The two giants' system should be ready for rollout by yearend.

PRICE.WAR @PC.LAND

Desktops and laptops are getting real cheap, real fast

Will personal-computer companies ever stop cutting prices? You wouldn't want to bet the mouse on it—this year, anyway.

On Mar. 8, IBM and Compaq Computer Corp. slashed prices on their desktop machines by up to 23%. The moves followed big price cuts on Mar. 3 by Hewlett-Packard Co. that, in turn, came on the heels of February reductions on mobile PCs from Apple, Compaq, IBM, and Toshiba. And then there were the price wars of 1994. For PC makers, pricing has become a constant downward spiral: "Leadership in this industry implies price competition," says Jacques A. Clay, general manager of HP's PC division.

The latest round of price cuts is a warm-up for what looks like another treacherous year for PC makers. Gone is last year's sizzling 27% unit sales growth. In 1995, companies expect gains of 19%. Now, having stolen a big share from small players, the industry's biggies have just one place to turn for new business: each other's customers. "The top tier are competing for market share against themselves," says Vadim Zlotnikov of Sanford C. Bernstein & Co.

NEW MACHINES. The PC makers can afford a price war. The cuts are being driven by Intel Corp.'s Feb. 1 price reductions of up to 39% on Pentium chips. And the lower prices are paving the way for new machines, which most big PC makers are introducing this month.

The competition won't let up soon. On the industry's agenda for later this year: even more price cuts and new products. Some PC makers hope to stay in the game by capitalizing on fast-growing markets, such as notebook PCs and consumer multimedia machines. Others, such as Compaq, plan to compete by adding novel features to mainstream business machines (page 96).

Not every company can keep up with the industry's furious pace. By mid-1996, figures Clay, just five outfits will command half the PC market—down from 10 today. "The PC industry is going to become like the car industry," he predicts. Tough as it is to cut prices, the price of not cutting them could prove even steeper.

By Robert D. Hof in San Francisco, with Ira Sager in New York and bureau reports

ILLUSTRATION BY MARGARET KEIGHT

TESTING, TESTING: *NBC turned to archrival ABC to fund* NewsRadio

HOLLYWOOD

'WE'D TAKE A HIT SHOW FROM ATTILA THE HUN'

Strange alliances in the mad new world of broadcasting

Like most network executives, ABC top programmer Ted Harbert spends his evenings rooting for the home team. But on Mar. 21, Harbert faces a dilemma. At 8:30, ABC Inc.'s sitcom *Thunder Alley* will take on a new offering from NBC Inc. in *NewsRadio*—and Harbert's network helped pay for each to get on the air. "I hope *NewsRadio* does very well," Harbert said at a recent TV conference in Las Vegas, "and beats two out of the three other guys."

The notion of one TV network helping another is odd, especially with ABC and NBC neck-and-neck in a ratings race. But with federal rules that ban networks from owning TV shows scheduled to end soon, many of the old rules about TV production and distribution are suddenly changing. Hollywood studios that once exclusively supplied the networks with TV shows are launching their own networks; and the networks increasingly are developing programs themselves. Each side worries that the other is getting into its business—and neither can know for sure how the trend will play out. As a result, with Hollywood about to bring out its spring pilot season, a broad range of new alliances is being developed among networks, producers, and even advertisers. "We'd take a hit show from Attila the Hun," says NBC West Coast President Don Ohlmeyer.

NBC didn't go quite that far—but it did turn to an archrival when it ordered up *NewsRadio* from Brillstein-Grey Communications, which is funded and half-owned by ABC parent Capital Cities/ABC Inc. NBC, in turn, recently won an order to produce a four-hour miniseries for ABC this fall. Meanwhile, CBS Inc. has pitched both Fox and NBC with pilots for the coming season.

DREAM BET ABC is committing $100 million to Spielberg & Co. to develop new programs

The rationale behind these deals? Now that they're no longer forced to broadcast shows other companies create and own, the nets want to be sure they have a stake in the programming that's eventually sold on the Information Superhighway—or syndicated for huge payouts. That means producing more of the shows they air and selling others to rival networks, which traditionally pay most of the production costs in return for the initial rights to air them.

The changes at CBS are a good example. "My orders are to create a viable stand-alone business to diversify us from our network business," says Andy Hill, president of CBS Entertainment Production. The network currently produces about 18% of its own prime-time lineup, and Hill says he feels a tug to show his bosses hot projects. Still, he recently pitched Fox a pilot called *McLife* that was too racy for CBS's format. To help further boost the fortunes of its own flagging schedule, in late February CBS signed an unusual deal with *NYPD Blue* creator Steven Bochco that gives the network a half-interest in the three shows Bochco will produce for them by 2000.

CO-PILOT. The nets are searching out people like Bochco because they're way behind in lining up key talent to make shows. That's why NBC recently signed a production deal with agents Erwin Moore and Brian Medavoy, whose clients include Melissa Gilbert and Cicely Tyson. It's also why ABC has committed $100 million apiece to joint ventures with Brillstein-Grey and the Dreamworks team of Steven Spielberg, David Geffen, and Jeffrey Katzenberg.

Hollywood studios, already worried that networks may one day produce most of their own shows, are fighting back. Both Paramount Pictures Corp. and Warner Bros. Inc., two of the industry's most prolific TV producers, recently launched their own networks. Others are taking a different tack. Sony's Columbia Tri-Star unit is jointly producing two pilots for hour-long shows with ABC. And Paramount, concerned that there will be too little room on network schedules for outside production, hedges its bets by allying itself with the nation's leading advertiser, Procter & Gamble Co., in a three-year cost-sharing arrangement. The studio also is expected soon to announce a deal with one of the three major networks to take shows in which P&G would be a guaranteed sponsor.

The pace of such dealmaking isn't likely to slow any time soon, either. "Everyone is jockeying for position because no one knows what the future is going to look like," says *NewsRadio* producer Brad Grey. If nothing else, the upcoming season will contain even more Maalox moments than usual for jittery entertainment execs.

By Ronald Grover in Los Angeles

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PEOPLE

THE ODD COUPLE RUNNING A HEALTH-CARE COLOSSUS

Given Abbey's messy history, can its new partnership survive?

Timothy M. Aitken and Jeremy M. Jones are a study in contrasts. Aitken, 50, is a flamboyant British investment banker who has bullied and scratched his way through dozens of deals in several industries. Jones, 53, a bland and buttoned-down Midwesterner, has toiled away quietly for the past 25 years in the health-care business.

The question now: Can these two opposites get along? They're betting yes. On Mar. 2, Jones, chairman of Homedco Group Inc. in Fountain Valley, Calif., and Aitken, chairman of Abbey Healthcare Group Inc. in nearby Costa Mesa, announced a merger that will create the largest player in the rapidly expanding business of providing health care at home. The merged company will have $1.1 billion in sales and 470 branch offices in 48 states. Jones will be CEO; Aitken will be his No. 2. Wall Street believes they can make a go of it: Abbey's shares jumped 24%, to about 35, after the deal was announced; Homedco's are up 20%, to about 52.

Jones, nonetheless, might be worried about his future. Since moving to the U.S. in 1991, Aitken has pulled Abbey from the brink of bankruptcy by refinancing the company and buying up competitors. But along the way, he has hired, fired, and bitterly fought with a succession of high-level managers.

A MISFIRING, TOO. All told, at least six suits are pending against Abbey or Aitken, including actions by Victor M. Chaltiel, Abbey's former chief executive, whom Aitken fired last February, and former Chief Operating Officer Michael C. Miller, fired by Aitken last May. Chaltiel did not return calls seeking comment. Miller's lawyer, Joel W. Baruch, says Miller was fired for complaining about a previous Abbey acquisition. Aitken says Miller was fired for poor performance.

More recently, there was the bizarre case of Jerilyn P. Asher, president of Abbey from July to December of 1994.

AITKEN AND JONES: *No more soap operas?*

In a series of public announcements, Abbey first asked Asher to step down on Dec. 14, after she complained to reporters about alleged accounting irregularities at the company. The following day, however, the company said it had "canceled its request" for Asher to leave. Instead, Abbey explained, Asher would stay on to help with new-business development. Moreover, Asher agreed to retract her statements. She declined public comment for this article.

Aitken brushes off the suits. "What's $2 million or $3 million in settlements compared to $50 million in savings from the [Homedco-Abbey] merger?" he asks. Besides, he says, "I've gotten the boot three times myself. It's extremely unpleasant."

Easy for him to say. As he often mentions, Aitken was raised by his grandfather, British media tycoon an Cabinet member Lord Beaverbrook. H grew up on an estate near London an summered at the family's place on th French Riviera, where the likes o Winston Churchill and Greta Garb came to dinner. But Aitken insists h "was not really raised with a silve spoon at all," because he "got nothin from my grandfather, just $150,000."

Aitken started out as cub reporter for London *Evening Standard*, one o his grandfather's paper He then worked briefly fo the British brokerage fir Rowe & Pitman Ltd. bu was told, Aitken says, tha "I didn't fit in." Later, h formed an investmen company and hired hi cousin Jonathan Aitke who currently serves a Britain's Treasury Chi Secretary. Aitken says h was dumped from th partnership after he an his cousin got into a di pute over investme strategy: "I didn't talk t him for five years."

SHORE LEAVE. To sooth the sting, Aitken en barked on a sailing ra from the Canary Islan to Barbados. Then, th Abbey post came up aft another cousin, who ha pened to be on Abbey board, suggested Aitken for the job.

At Abbey, Aitken seems to relish good spat. Legal squabbling aside, f instance, he and Chaltiel feuded ov everything from the size of their offic to the pace of Abbey's expansion. T this day, Aitken loves to show gues press clips from the Chaltiel fight a other disputes, nicely framed, hanging the downstairs bathroom of his wate front Newport Beach house.

Jeremy Jones asserts there will b no more soap operas at the merge company. "From now on, I'm in charg of the corporate culture of this comp ny," he says. And Aitken insists th he's "too old for any huge new fights Besides, he plans to spend more time o his 53-foot yacht. For Jones, perha the longer Aitken is at sea, the bette

By Eric Schine in Costa Mesa, Cal

Aitken wasn't "raised with a silver spoon." Grandfather Beaverbrook left him "nothing...just $150,000"

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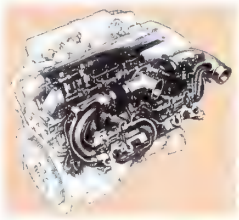

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DEALS

SOCIAL CONSCIENCE FOR SALE?

Ryka's CEO "sold out" to L.A. Gear, claim some shareholders

What do you call a "socially conscious" company that agrees to a merger giving its CEO a lucrative five-year contract while shareholders and key managers are left with crumbs? "Hypocritical" is one term being bandied about by disgruntled investors in Ryka Inc., a small sneaker maker best known for combating violence against women.

Investors are livid about a Jan. 30 agreement to sell the Norwood (Mass.) company to L. A. Gear Inc. for $16.4 million. The offer, about 62¢ a share, was roughly equal to the stock's closing price the day before, and well below its recent high of $1.09 last September. Shareholders were further incensed to learn that Ryka founder and CEO Sheri Poe will get a perk-laden contract with L. A. Gear worth at least $1.3 million. Two investors have filed lawsuits seeking to block the deal.

PERSONAL TRAUMA. Some Ryka employees, meanwhile, are angry that the merger doesn't include provisions for managers other than Poe, leaving most insiders with worthless or near-worthless stock options. Chief Financial Officer Roy S. Kelvin resigned in protest on Feb. 24. "There's a lot of disappointment from shareholders and employees who feel they haven't been rewarded for their commitment to Sheri and her vision of the brand," he says.

These days, lawsuits seem to pop up after mergers like mushrooms after a rainstorm. But angry Ryka shareholders seem to view the deal as almost a personal betrayal. A rape survivor, founder Poe wove her personal trauma into a potent "cause-marketing" message for Ryka that stressed fitness as an antidote to violence against women. The company also donated money to a foundation set up by Poe to combat such violence and emphasized its status as a female-run company making shoes especially for women. The pitch helped persuade investors to plow money into three public offerings.

"One of the reasons we invested is that this is a socially conscious company," says Elizabeth Hermon, a Cambridge (Mass.) psychotherapist who says she and her husband bought 150,000 Ryka shares. "It's run by women, for women. Investing in something like this is one way women can help each other." In the deal with L. A. Gear, Hermon complains, "[Poe] is well taken care of and the rest of us definitely are not. How could a company with such strong ideals make such an unfair deal?"

Poe won't comment, citing the lawsuits, but insiders contend the criticism ignore some hard facts. Although Ryka eked out a slim profit in the first two quarters of 1994, it never made an annual profit. In 1993, it lost $3.4 million on revenues of $14.4 million. Its credit is so poor that it has been paying interest rates of more than 20% to a Korean company to finance its orders. Ryka has been given a "qualified" report by auditors every year since its 1987 inception.

CASH SUPPORT. In other words, says Susan E. Engel, an outside director, the merger price shouldn't be judged against stock fluctuations based mostly on hype. "People who were buying the stock were taking a gamble," she says. The deal was negotiated, Engel says, by outside directors who concluded "the company's growth prospects were better with L. A. Gear. If you don't grow and you don't make money, it's hard to continue social advocacy." What's more, Engel says Poe negotiated her contract with L. A. Gear—including a $100,000 salary raise—separately and says the board didn't know the details until after the documents were finalized.

Based on facts available, Boston lawyer Louis A. Goodman of Skadden, Arps, Slate, Meagher & Flom believes investors' suits will be hard to win. "The directors have no obligation to auction the company, although they need to show that this is the best deal they could get." Its financial plight, he adds, "gives the board a reasonable case."

Perhaps Poe's mistake came in holding herself up as a moral pillar. People expected her to adhere to a higher-than-average standard. When she didn't, they accused her of perfidy. The lesson: Money, ultimately, may talk louder than social good.

By Mark Maremont in Boston

SHERI POE'S DEAL

The Ryka founder's take under the L.A. Gear deal

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BONUS Up to 50% of salary

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DATA: COMPANY REPORTS

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CHIPS

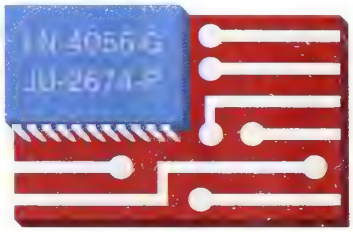
MAKING CHIPS IN THE STICKS

No site for a new plant is too far off the beaten track

Micron Technology Inc. made Idaho famous for chips—and not potato chips. Next, the Boise maker of computer memory chips wants to spread the wealth around. Any day now, the company will announce plans to build a $1.3 billion chipmaking factory—one of the most expensive chip plants ever. Where? In one of three places just as unlikely as Boise: Omaha, Oklahoma City, or the Provo, Utah, area.

Once upon a time, those choices might have arched eyebrows. Not now. In fact, of 10 or more new gigabuck chipmaking plants currently on U.S. drawing boards or nearing completion, nary a one is located in the intellectual capital of U.S. chipmaking—California's Silicon Valley.

And there's plenty of building going on. Planned investments in future chip factories worldwide set a record in 1994 of $80 billion, figures VLSI Research Inc. Indeed, U.S. chipmakers now are both outselling and outinvesting their Japanese rivals. The investment figures are good news for fans of U.S. technology: In semiconductors, capital spending usually translates into market share.



SILICON WHAT?
Of the 10 biggest factories now on the drawing board, not one is in California

Micron Technology will have to pay a hefty price for plowing so deep in the boondocks. It's a silicon rule of thumb, says VLSI Research President G. Dan Hutcheson, that building a new plant where there are no others will boost costs as much as 50%. That's because of the infrastructure needed to handle large volumes of various superpure materials and chemicals needed to manufacture chips.

That's why most chipmakers are building their new plants in more familiar growth spots—primarily Oregon. Chipmakers have been hiking to the Northwest for years, attracted by cheap power, water, and land—plus, more recently, tax breaks. Intel Corp., which is already Oregon's largest employer, has broken ground near Portland for still another plant—to give birth to the chip that will eventually supplant the successor to its Pentium processor. Korea's Samsung, Japan's Fujitsu and LSI Logic also are shopping for an Oregon homestead.

To Micron, a maverick obsessed with secrecy, Oregon and California are simply too crowded. High-tech culture may fuel progress with lunchtime gossip and happy-hour techno-speak, but "off by itself in Idaho," says George Burns, a principal of Strategic Marketing Associates. Micron has succeeded in making the industry's smallest—and therefore least costly—chip. Given its success so far, says Burns, it's not surprising Micron is looking for "another lonely place to make chips."

By Michael J. Parks in Seattle

ADVERTISING

JANIS JOPLIN, MATERIAL GIRL

Her antibourgeois ballad is now selling Mercedes-Benzes

Mercedes-Benz has a new TV spokeswoman. She's a boozy rocker who died of a heroin overdose 25 years ago. Her pitch goes like this:

Oh, Lord, won't you buy me a Mercedes-Benz? My friends all drive Porsches; I must make amends. Worked hard all my lifetime, no help from my friends. Oh, Lord, won't you buy me a Mercedes-Benz?

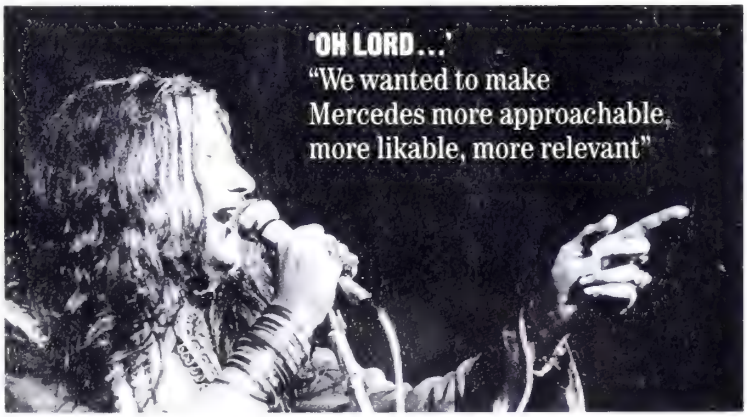
Few baby boomers can forget Janis Joplin's song. And the *a capella* piece makes for an effective backdrop to film of Mercedes $30,000 C-class and $50,000 E-class models cruising country roads.

But isn't a Woodstock-generation sendup of capitalism a strange way to sell a luxury automobile? Mercedes doesn't see anything odd about it. "Hey, whatever the song might have meant back then, it's a different time, it's a different car," says Lee Garfinkel, 40, chairman of New York ad agency Lowe & Partners/SMS, which produced the commercial. It bought the rights to the song from Joplin's estate and from Sony Music Entertainment.

Mercedes' motive is simple. After lowering the sticker on its cars during the past 18 months, the company now wants to appeal to car buyers who are younger and hipper than its current median customer—a 51-year-old male. "We want to build equity with a new generation," says Andrew C. Goldberg, 36, an executive at Mercedes-Benz of North America Inc.

The commercial is the latest in a series of ads Mercedes began airing last fall. Aside from appealing to new customers, the campaign is supposed to set the stage for new, youth-oriented roadsters and sport-utility models Mercedes plans to bring out in two years. Both are designed to lure 35- to 45-year-old luxury-car buyers away from the like of BMW and Audi.

"IT'S A RIOT." The ad strikes a chord with boomers such as Mark S. Maymar, 38, an executive with San Francisco's Compass Capital Corp., who bought his first Mercedes last year. "It's a riot; my wife sang right along with the ad" when the couple first heard it, he says.



'OH LORD...'
"We wanted to make Mercedes more approachable, more likable, more relevant"

That's the sort of reaction that Mercedes is counting on. And, in the end, maybe the auto maker's adoption of the tune was inevitable. After all, few companies figure so prominently in the lyrics of a generational anthem. Still, it's not hard to picture Janis rocking and rolling over in her grave.

By Larry Armstrong with Los Angeles, with bureau reports

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EDITED BY KEITH H. HAMMONDS

AN UNBREAKABLE GLASS CEILING?

AS PRESIDENT CLINTON BACKS away from affirmative action, he will have some explaining to do to members of his Administration. The Glass Ceiling Commission, chaired by Labor Secretary Robert Reich, voted on Mar. 8 to adopt a report documenting widespread limits on career advancement for minorities and women. Its research shows that 95% of senior-level managers in the largest American companies are men—and 97% of those male managers are white. The bipartisan panel won't make any proposals to crack the glass ceiling until November, but its draft report urges strong enforcement of federal affirmative-action rules.

McCAW HANGS UP ON PCS

IS SMART MONEY FLEEING much hyped personal communications services? Wireless entrepreneur Craig O. McCaw, flush with nearly $1 billion in stock after selling McCaw Cellular to AT&T, bowed out of the bidding for PCS licenses. Prices were just getting too high, says an associate: "At this point, you've got to have a lot of staying power to make the economics of this business work." Indeed, the top bid for rights to the Los Angeles PCS market had hit $494 million by Mar. 8; New York had fetched a bid of $443 million. McCaw may return for later auctions.

R. J. REYNOLDS' NEW SMOKE ALARM

AS IF CLASS ACTIONS AND state-backed litigation weren't enough, R. J. Reynolds Tobacco is being sued by one of its own suppliers. On Mar. 7, Manville's Schuller International unit filed suit in a Denver federal court to prevent Reynolds from marketing cigarette products made with Schuller's glass fiber. According to the complaint, Schuller was comfortable supplying Reynolds with fiber "for developmental purposes," but not for cigarettes sold to consumers. Manville won't comment. Reynolds calls it a "misunderstanding" that will quickly be resolved.

CLARK DUMPS ITS LAST ALBATROSS

BUSINESS 101, CHAPTER ONE: Dump losers, keep winners. On Mar. 6, Clark Equipment capped one of the biggest restructurings in America's heartland, selling its 50% stake in VME Group, a construction equipment maker, to partner Volvo for $573 million. With the deal, Clark abandoned the cyclical, low-margin industries that once held its income statement captive. It sold its forklift business to Terex in 1992 and unloaded its Brazilian auto transmission operations last year. What's left? The rich Bobcat mini-excavator business and Clark's double-digit margin axle and transmission unit—plus a newly acquired road paver outfit and, soon, golf cart maker Club Car.

HEADLINER: J.P. BOLDUC

A FALL FROM W. R. GRACE

Who's really running W. R. Grace? For now, it may be the 81-year-old whose name is on the front door. Evidence of that came with the Mar. 2 resignation of J. P. Bolduc as CEO of the health-care and chemical giant.

Bolduc, a former consultant, was handpicked by Chairman Peter Grace to run the company. His ouster has riled shareholders. "We're outraged by the fact that . . . it doesn't appear to be because of his performance," says a fund manager. Indeed, the restructuring Bolduc had wrought since 1990 is working. Operating income rose 22% last year, to $587 million.

In a statement, Bolduc cited "differences of style and philosophy with the company's leadership." The company wouldn't elaborate. But some say the rift may have involved negotiations by Grace's son, Peter III, to buy a Grace restaurant-management unit. The deal was for less than $1 million, but "you had delicate negotiations," says one director, "and Peter Sr. was siding with his son." A former executive says directors hoped for a reconciliation, but ultimately sided with the chairman.

By Gail DeGeorge

GLOOMY GUSES 'R' US

WHERE ARE THOSE POWER Rangers when you need them? After a bummer of a Christmas, Toys 'R' Us on Mar. 8 warned analysts that earnings growth would slow this year, citing aggressive pricing and weak video game sales. *Phfft* went the retailer's stock, dropping 6.5%, to 25; it peaked at nearly 4 early last year. Some analysts remain bullish: Wertheim Schroder Managing Director Robert Schweich praises Toys' investments in new stores overseas and says the current lull in video game sales should end later this year. Says Schweich: "This is one of many buying opportunities."

ET CETERA . . .

- Wellcome caved, advising shareholders to take Glaxo's $15 billion acquisition offer.
- IBM was found not liable for the wrist and hand injuries of a woman who used its PC.
- USAir will cut 170 flights from its schedule, refocusing on the East Coast.
- AT&T can pay $3.26 billion to buy the rest of LIN Broadcasting, an appraiser said.

CLOSING BELL

TWINS! HOW CUTE

Pregnancy hasn't gone out of style—but sales of upscale maternity wear are drooping decidedly. Sweatpants and casual wear have cut into revenues at retailer Mothers Work, whose stock price has dropped 52% since mid-1993. And A Pea in the Pod hit $2 in December, down from $12 a year earlier. Will marriage suit these rivals? On Mar. 6, Pea confirmed it will sell out to Mothers Work for $23.9 million, or $5.50 a share. Although the combined company will dominate the high end of the mommy-to-be market, analysts still expect sluggish growth.

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DITED BY OWEN ULLMANN

LARRY SUMMERS: FROM PRODIGY TO PUNCHING BAG

s a boy-wonder economist at Harvard University and the World Bank, Lawrence H. Summers was in great demand on Capitol Hill, where his testimony was eagerly ought on economic issues ranging from inflation to savings intives. Now chief international strategist for the Treasry Dept., Summers is a hot commodity with Congress again, ut it's not his counsel lawmakers want—it's his hide.

With the dollar in a free fall and the Clinton Administraon's $20 billion rescue plan for Mexico's economy under atck, the 40-year-old Treasury Under Secretary is being rced to fend off critics on two fronts. At a Mar. 7 hearing, s first before the Republin-controlled House, Sumers was grilled for not anticating the peso crisis—which ow appears to be helping ag the dollar down against e Japanese yen and German ark. International markets e "giving the American peoe a message—and that is, ur leaders have put you in opardy," says Rep. Dana ohrabacher (R-Cal.).

APEGOAT? Summers' fans Treasury maintain he's a ady target for Republicans gry at Treasury Secretary obert E. Rubin and Presint Clinton for end-running ngress on Jan. 31 with a exican aid plan. And the e blames the dollar's plunge the loan package, which ey claim has chained the eenback to the peso. "Lars being made the scapeat," grouses one Clintonite. Being placed on the defene is rare for Summers, a icy wonk described by colleagues as both brilliant and ogant. It was Summers who miffed other Administration cials—particularly the trade team—by demanding he be sole dollar maven. Now his grab for turf is coming back haunt him. "He's so big in personality that he got to han the account alone," concedes one White House insider.

Early in his Presidency, Clinton pursued a weak-dollar cy aimed at prodding Japan to narrow its trade surplus by ning its domestic market to U.S. goods and services. Afan initial plunge by the greenback in 1993, the Adminision insisted it did not want to see the dollar fall. But curcy traders were convinced the U.S. still secretly favored heaper dollar. That became a self-fulfilling prophecy, thanks Washington's tepid support for the greenback and stingy deral Reserve interventions to prop up the currency.

Within the Administration, officials say, Summers increasingly expressed worry about the dollar's periodic collapses and sought a policy of currency stability. One of his biggest clashes came last year, when U.S.-Japan trade talks broke down and the dollar slide resumed. After U.S. Trade Representative Mickey Kantor and Commerce Secretary Ronald H. Brown mused publicly that a weaker dollar might not be so bad, Summers assailed them in a closed-door meeting. Relations got so bad that Kantor had aides compile a graph that showed his remarks did not trigger the greenback's plunge.

Summers even riled Rubin, then head of the White House National Economic Council—and now Summers' boss. As the Under Secretary warned that a trade rupture with Japan would panic currency markets, Rubin, former cochairman of Goldman, Sachs & Co., shot back: "I've been a trader, and I can tell you nobody can predict how traders will behave."

Mexico was warned "repeatedly and with increasing urgency" that it must raise rates or devalue

— LAWRENCE SUMMERS, Treasury Under Secretary

BETWEEN JOBS. Summers ultimately convinced the Administration that stabilizing the dollar was more important than a hard line on trade. But traders keep pushing the dollar down, persuaded that the U.S. won't close its trade deficit, reduce its budget gap, or prop up the currency.

As Congress links the dollar's dive to Mexico, Rubin has managed to duck some of the bullets because he was between jobs when a bungled peso devaluation set off the crisis on Dec. 20. That has left Summers, who was in charge, on the hot seat.

U.S. authorities say Summers warned Mexican officials last year to raise interest rates or devalue the peso to counter their yawning current-account deficit. Mexico was warned "repeatedly and with increasing urgency" as the year went on, Summers insists. Retorts a Mexican official who has dealt directly with Summers: "He is convinced that the main reason behind this crisis was the Bank of Mexico's bad monetary management. It really irritates everyone here."

Indeed, U.S. officials say the Mexicans, on the eve of devaluing, ignored advice to couple devaluation with economic reforms. "They stuck us with a *fait accompli*," says one official.

Nor, for that matter, can Summers and Rubin persuade traders to bid up the dollar without a dramatic change in the U.S. economic policy. For a wunderkind who wanted the challenge of running U.S. dollar policy, it's a humbling lesson.

By Dean Foust and Douglas Harbrecht in Washington

CHRIS USHER

Cover Story

HOT M

First Mexico's peso plunged, international investors fled, and the country's debt-fueled economy started to unravel. Then the currencies of a host of high-debt economies from Canada to Thailand came under attack. Now, as Congress grapples with reining in federal deficits (page 28) and President Clinton struggles to bail out his Mexican allies (page 52), it's America's turn to be taken to the woodshed by the market for its excesses of debt.

After several months of relative calm, the battered U.S. dollar is plummeting once more against the hard-money currencies of the world. In a market already badly shaken by the collapse of the venerable Barings PLC merchant bank, the dollar has skidded to all-time lows (charts, page 49) against the German mark, Swiss franc, and Japanese yen.

Welcome to the debt crisis of '95. It's one in which the trillions of dollars of portfolio money now coursing through the global economy call the shots. With trade going global and country after country reaching out to foreign investors to finance everything from trade imbalances to superhighways, a new creditor class composed of millions of faceless individuals and institutions has sprung up. These creditors are demanding their due from America, by far the largest borrower on earth. In short order, says Nicholas P. Sargen, chief global strategist at J.P. Morgan Securities Inc., the U.S. is learning that "the price of breaching market discipline is much more painful than anyone ever expected."

What the market wants is simple: less debt or higher interest rates. In fact, the dollar rout is raising fears of a round of global deflation if the Federal Reserve is forced to boost short-term U.S. interest rates to defend the currency. While Fed Chairman Alan Greenspan is giving no hints that he wants to push rates up, he is clearly upset by the dollar's weakness. Not only is it "unwelcome and overdone," he told Congress on Mar. 8, "it adds to potential inflation pressures in our economy." Treasury Secretary Robert E. Rubin maintain-

What's Behind the World's Money Troubles

MEXICO The peso's collapse in December sends Mexican debt and equity prices into a tailspin that even a $53 billion, U.S.-led bailout can't stop. The crisis spreads worldwide as global money managers slash the value of currencies, stocks, and bonds in nearly every economy with heavy foreign debt and weak national finances.

U.S. The dollar crashes against the mark and the yen as traders, already worried about the cost of the Mexican bailout, shift their anxiety to the Federal Reserve. They fear a lax Fed won't raise rates until late spring, allowing inflation to pick up.

ONEY

The dollar is crashing. Mexico is in meltdown. The European currency system is collapsing. One force driving it all: Global money traders voting thumbs-down on deficits

at a stronger dollar would be in "our national interest." To ımmer that point home, he ordered the Fed earlier in the eek to buy greenbacks to try to brake their decline.

But even amid this show of U.S. support, there's no guaran- e global money managers will change their minds for long. uffed to the gills with dollars after decades of heavy Amer- ın trade deficits and borrowings, fund managers no longer ınt to hear vague assurances about America's fiscal health.

HE DEFICIT THING." They acknowledge that the U.S. econ- ıy is growing strongly and that the nation's technology d productivity are among the best in the world (page 51). ɔnetheless, worried about the effect on their massive debt ldings of renewed U.S. inflation and a possibly open-ended nerican obligation to Mexico, they now are demanding im- ɜdiate, firm action to shore up America's balance sheet. ıd fearing they ɔn't see it any ıe soon, they're racing to dump greenbacks as fast as they can. "It's the deficit thing," says Madis Senner, manager of Van Eck Global Income Fund. "People are calling North America the 'peso bloc.' This does not look pretty."

In fleeing from the dollar to stronger currencies, these investors may be finally bringing about a watershed in global finance that has been a long time in coming. Much as the British pound was forced to relinquish its role as the world's reserve currency as the U.S. economy grew in importance, now the pound's replacement—the dollar—is being forced to make room for the currencies of economies with comparable heft and tougher central banks.

In many ways, this dollar crisis is more troubling than the spell of weakness that plagued the U.S. currency when Jimmy Carter was President in the 1970s. Even now, the dollar makes up 60% of world foreign exchange reserves. But the latest shift out of greenbacks will probably be accelerated by the new structure of international financial markets. Increasingly dominated by American mutual- and hedge-fund investors controlling perhaps $2 trillion in assets, this investor class is far different from the patient banks and multilateral development agencies that once provided the globe's international capital supply.

Today's hot-money set is benefiting from changes in investment technology that have made huge sums available to companies and governments that never were able to garner much overseas portfolio investment before. Investors now can move money from

EUROPE Money from the world over floods into the mark as the Bundesbank signals displeasure with the scale of the Mexican rescue—and indicates German interest rates may head higher. Europe's deficit economies—Spain, Portugal, Greece, Sweden, and even Britain—take a beating at the hands of currency traders. Prospects for a European monetary union grow even more dim.

JAPAN Faces the possibility of rising interest rates and a $200 billion repair bill in the wake of the Kobe earthquake. So Japan is slowing the recycling of its $146 billion annual trade surplus to conserve cash. That pushes the yen to record highs, raising questions about exporters' profits and the durability of an already sluggish recovery.

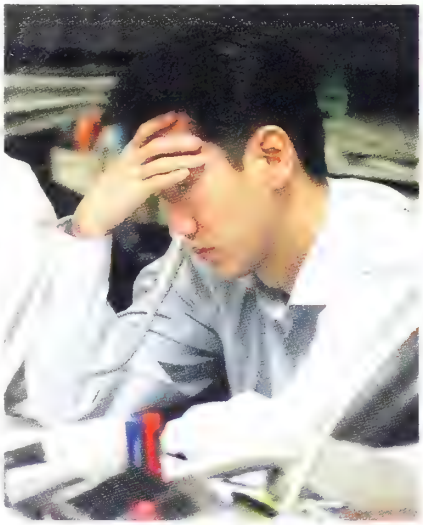
Treasury bills to Mexican retail stocks to German government bond options just by picking up the phone. This is calling into question the whole notion of national currencies. "Ten years ago, if you thought investing in Mexico was a good idea, you'd have had no idea how to go about doing it," says Merrill Lynch & Co. economist William Sterling. "Now, it's as easy as dialing 1-800-mutual fund."

Cover Story

In this new market, money moves faster than ever, raising the possibility that billions can flow in or out of an economy in seconds. So powerful has this force of money become that some observers now see the hot-money set becoming a sort of shadow world government—one that is irretrievably eroding the concept of the sovereign powers of a nation-state.

This amorphous mass of investors can penalize countries such as the U.S. by denying them ready access to funds. Other countries that have slashed deficits, boosted savings, and reformed their finances—such as Chile and New Zealand—are rewarded with strong currencies and buoyant domestic markets. As cash has flowed around the world, "control of monetary and fiscal policy has devolved," says Morris W. Offit, chief executive of New York's Offitbank. "Countries don't control their own destiny. If they don't discipline themselves, the world market will do it for them." It is for that reason, perhaps, that the Fed and the Clinton Administration have not taken heroic measures to halt the dollar's slide.

WRONG TURN? Thailand took on debt to build superhighways, and its currency took a beating



DOLLAR DAZE More than $1 trillion a day slosh around world currency markets

PENSIONAT

OVERSHOOTING. Of course, the Administration might soon persuade its Group of Seven allies to mount a dollar-rescue operation, much as it did when the currency collapsed in 1987. Bundesbank President Hans Tietmeyer even concedes he might sanction "a small rate cut." But Fed Chairman Greenspan believes the weak dollar must focus attention on the point that America's low savings rate and trade and budget imbalances have to be addressed. "The only solution [for the U.S.] is either to raise interest rates or cut the deficit," notes investment banker Felix G. Rohatyn of Lazard Frères & Co. But because higher interest rates "will create a straitjacket for the economy," Rohatyn says, Washington may have little choice. Without new Japanese financing of U.S. deficits—something that's not likely—the market may force upon the U.S. what the Republicans failed to achieve in Congress. "The collapse of our currency," Rohatyn warns, "will force us to balance our budget."

With more than $1 trillion a day sloshing around the currency market, there may be few other ways to hold the dollar up for long. And letting the market work might be all for the best. In a world of totally free capital movements, money should be able to go where it earns the best returns. The outflow of U.S. portfolio cash has fueled privatizations, pumped up stock and bond markets, created jobs, and eased the way for political and economic reforms, e pecially in the Third World.

BACKLASH Debt-plagued Italy is encountering resistance to spending cuts

But the easy flow of cash can give an illusory impression stability. When it reaches a torrent, as it did in 1993 and '9 when more than $150 billion poured into emerging-mark countries alone, prices of stocks and bonds can become infla ed way beyond their fundamental values. It was much t same story with financial assets of numerous other hig debt countries, where high valuations brought on by sudd cash inflows bred complacency among investors and polic makers alike. Says E. Gerald Corrigan, senior adviser Goldman, Sachs & Co.: "One of the curses of these current nancial markets is that they overshoot—repeatedly and su stantially."

Indeed, when U.S. interest rates were low in the ear 1990s, American investors searching for high returns pump $300 billion into international stocks, bonds, and mutual func It was an accomplishment all the more amazing because t U.S. was racking up a $400 billion current-account deficit du

ng the period. When $225 billion in direct foreign investment s factored in, the U. S. outflow represented nearly 3% of the ation's gross domestic product by its 1993 peak, estimates Sterling. In terms of gross domestic product, that is a full ercentage point more than the resources America shipped to Europe in the 1940s under the Marshall Plan.

America managed this herculean investment feat by borowing heavily from the central banks of Japan and other surplus nations to cover its chronic trade deficits. That reed domestic savings to go overseas. But when he Fed raised rates last year to counter inflation nd slow a strong economy, the rules of the game hanged in an instant. With higher yields at home, he allure of overseas assets suddenly began to vane. In fact, economist Sterling estimates that American investors may buy as little as $30 billion n overseas stocks and bonds in 1995, less than alf 1994's total.

INEASE. The slowdown in nvestment flows gave the lollar a temporary lift. But t wasn't enough to overome the greenback's funamental weaknesses. In act, as Mexicans have disovered in recent months, he money managers who lunged into Mexico City's *Bolsa de Valores* when mes were heady are anyning but patient.

Now, Washington and Vall Street are finding how at process works as inestors flee the U. S. With e federal government lanning to sell an estimatd $1.4 trillion in new debt y the end of the centu—and with 20% of U. S. overnment debt now in reigners' hands—it has taken only a few weeks of financial ters to knock the dollar off its perch. "There's a flight to uality," says Alan E. Royle, treasurer of S. C. Johnson & Son nc. "People think the Germans know what they are doing."

The dollar's troubles began as the Mexican bailout bogged own. As the peso sank from 3.5 to the dollar to 7, investors arted worrying that Washington was, in effect, putting exico's debts on its own balance sheet. If the Administraon's huge bailout effort doesn't work, many asked, what en? Says CS First Boston Chairman David C. Mulford: You can argue that Mexico's devaluation has tainted the fe-haven status of the dollar."

Adding to that sense of unease was the narrow defeat in e Senate of the Balanced Budget Amendment. Now, investors are worrying that talk of tax cuts will continue despite the amendment's failure. "The optimism that something would be done on the long-standing U. S. budget deficit problem has disappeared," argues Jonathan H. Francis, head of global strategy at Boston's Putnam Investments.

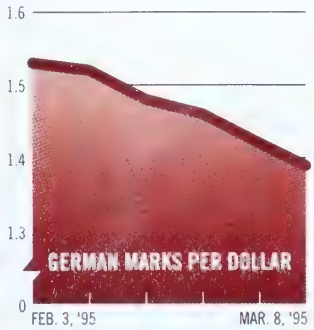
To many fund managers, Fed Chairman Greenspan provided the clincher. Greenspan's lobbying in favor of the Mexican rescue package angered some investors who thought the central bank should remain aloof from politics. Then Greenspan signaled that the economy may be slowing and the Fed might stop raising interest rates for a while. "This was a major shift," says Michael R. Rosenberg, manager of global fixed-income research at Merrill Lynch. But perhaps a premature one. Rosenberg notes that with U. S. bank loans and commercial-paper issuance expanding rapidly over the past three months, the economy may soon pick up again. "The foreign exchange market is telling us that inflationary expectations are still very high," he says. "We've got a credibility crisis."

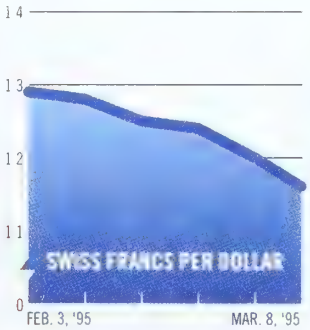
Greenspan's comments could not have been timed worse for the dollar. They coincided with rising expectations that the Bundesbank would soon raise rates in the face of a strong German recovery. Adding to those worries, the decision on Mar. 7 by striking German metal workers to settle for an effective pay hike of 5.1% this year is unsettling investors. Despite Tietmeyer's holding out the possibility of a modest rate cut to help the dollar, wage pressures could still force the Buba to start pushing rates higher again before long. That would only increase the attractiveness of German debt to investors already looking at the U. S. with a gimlet eye.

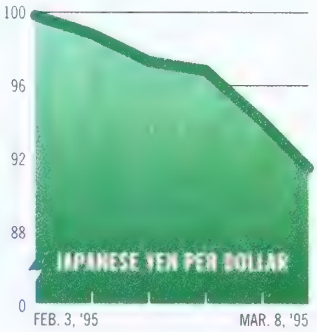
MONEY PIT

Currency traders in Chicago and elsewhere are the new global economic powers

THE DOLLAR'S SWIFT SLIDE IN EUROPE AND ASIA







DATA BLOOMBERG FINANCIAL MARKETS

PHOTOGRAPH BY MICHAEL L. ABRAMOV; CHART BY ANGELO MUSANA

Washington's debt situation looks pretty shabby. The federal government is expected to run a $192 billion budget deficit and a $175 billion trade

Cover Story

gap this year. It thus will need to attract $200 billion in foreign investment in 1995 alone just to keep the dollar stable, estimates J. Paul Horne, Smith Barney Inc.'s Paris-based international economist. But the Japanese, who have financed the bulk of America's trade deficits over the years, now seem in no mood to continue.

"The collapse of our currency will force us to balance the budget"

FELIX ROHATYN
Lazard Frères

Japan is burdened by as much as $400 billion in losses on previous U.S. investments. And the country faces huge spending needs at home as it repairs the damage of the Kobe earthquake and continues to restore the balance sheets of weakened banks. Now, "the sharp appreciation of the yen will have a bad influence on Japan's economy," says Shigeru Adachi, deputy general manager of research at Sakura Bank Ltd. "It could promote a further hollowing-out of manufacturing." Salomon Brothers Inc. economist Robert Alan Feldman believes Japan could see GDP growth slump to 1.5% next year—nearly two percentage points below his current forecast—if the yen remains at 90 to the dollar.

"If [countries] don't discipline themselves, the world market will do it"

MORRIS OFFIT
Offitbank

It thus is no surprise that manufacturers are pressuring the Bank of Japan to cut the discount rate from its current record-low 1.75%. But the bank is not budging yet. Such a reduction "is not under discussion," says Kengo Inoue, a deputy director-general at the central bank. "We won't change our monetary policy because of a temporary disruption in the market."

"WE'RE REALLY STUCK." Many European nations are also discovering the cost of currency turmoil. As the dollar crisis has spread to Europe, investors are laying waste to the European Union's plans for a currency union centered on Germany. As exchange rates sink in country after country around Germany's periphery, even the future of EU free trade may be in jeopardy, much as the Mexican crisis is calling into question the durability of the North American Free Trade Agreement.

Investor flight to the security and credibility of the Bundesbank has driven currencies in Britain, France, Sweden, Spain, Italy, and Portugal to record lows against the mark. But it is Europe's most profligate spenders that have been hardest hit. Since Europe's march to a single currency ran into its first crisis in 1992, the Spanish peseta has lost 25% of its value against the mark. The Italian lira has fallen by twice that amount. And there seems to be no end in sight.

Spain's emergency 7% devaluation of its peseta on Mar. 5 did little to reassure investors: They immediately pushed the yield on 10-year Spanish bonds to 12.5%—some five percentage points above those on comparable German debt. Deficit-ridden Italy, whose national debt equals 115% of GDP, soon may face even worse. Not only is the country experiencing capital flight, it is also seeing prices soar on goods imported from Germany. The price of stainless steel used by furniture maker Sawaya & Moroni, for example, has shot up 300% recently as the mark climbed and supplies tightened. Mourns Chairman Paolo Moroni: "We're really stuck."

Even France, a pillar of Europe's integration drive, is suspect. On Mar. 7, the franc hit an historic low against the mark as investors honed in on the runup to two rounds of presidential balloting that end May 7. The Banque de France raised rates by two percentage points in response. But whoever wins the presidency still will have to cope with 12.3% unemployment and soaring budget deficits, especially in health care and other social programs.

A public outcry could stall budget cutting. That would disappoint financial markets and might force France to abandon the *franc fort*, the strong-currency centerpiece of its economic policy. But the massive flight by investors into marks could also backfire for Germany. Peter Praet, chief economist at Brussels-based Générale de Banque, figures that a mark at 1.25 to the dollar would severely restrain exports and competitiveness, cutting Germany's current 3% annual GDP growth by a full percentage point.

The Bundesbank is willing to take that risk because it believes a strong currency says a lot about a country's fundamental strengths. The U.S. and many others have yet to come to that conclusion. Yet in the end, they may have no choice.

Faced with the new realities of the markets, government will have to take the political heat and cut spending if they want to have access to global cash. As House Speaker Newt Gingrich notes: "If you were an international investor and watched this generation of politicians lack the courage to face up to a problem, and you said, 'Where do I think my money's going to be stable?' I think you can understand why you would invest in Germany or Japan." It's that stark truth that is roiling currency markets right now. Unless the U.S. and other indebted nations catch on, even more trouble lies ahead.

By William Glasgall in New York and Bill Javetski in Paris, with Rose Brady in New York, Robert Neff in Tokyo and bureau reports

America Online users can chat with the authors on Sunday, Mar. 12, at 9 p.m. EST in a BUSINESS WEEK Online Conference.

The flight to marks may hurt German competitiveness—but for the Bundesbank, it's a risk worth running

COMMENTARY

By Christopher Farrell

THE DOLLAR DOESN'T DESERVE THIS THUMPING

Do the U.S. economic fundamentals justify the collapse of the dollar?

On the face of it, the answer is a resounding no. In theory, a country's currency should be related to the economic fundamentals—in which case the dollar should be strong. U.S. business productivity has been rising at a heady annual rate of 2.1% since the current upturn in the business cycle began some four years ago, better than either Germany or Japan. Corporate operating profits are at their highest level in more than two decades. As for inflation, forget it. Unit labor costs rose a mere 0.9% in 1994, the smallest yearly gain since the '60s, and consumer prices are hardly rising at all.

To be sure, America piled up too much debt over the past 15 years to finance both government and trade deficits, and there is a huge overhang of dollar-denominated debt throughout the world. But here, too, the U.S. is making important strides. The nation's total debt is growing at around a 5% annual rate, a shadow of the double-digit rates of the '70s and '80s. The growth in federal-government debt has fallen from the 13% pace of the '80s to 6.4% in 1994. The current-account deficit is shrinking as a share of gross domestic product. And, over the past five years, the Japanese stock market has tanked by 45%, while the U.S. market is up some 40%. "The U.S. economy, in competitive terms, is in a better position today than it has been for 30 years," says E. Gerald Corrigan, a senior adviser at Goldman, Sachs & Co.

GOOD SHAPE. And by many financial measures, the U.S. government sector is reasonably healthy—at least compared with the rest of the world. For instance, in 1995 net public debt (all levels of government) in the U.S. is projected to be 40% of GDP, compared with 47% in Germany and an average of 43% among the world's seven largest industrial nations, according to the Organization for Economic Cooperation & Development. Budget deficits in America are forecast at 1.8% of GDP this year, vs. 2.4% in Germany and an average of 3% for all the major industrial countries. "We're in far better fiscal shape than many other countries," says David Hale, economist at Kemper Corp.

Of course, a number of factors are coming together to weaken the dollar. The yen is appreciating because some investors assume the U.S. government wants the yen to rise in order to treat chronic trade imbalances. Then there's Mexico. The U.S. is acting as lender of last resort to the battered Mexican economy, and its crisis is fueling investor fears that the U.S. could end up paying out more to prop up its economy and discredited government.

Still, the fundamentals suggest there should be no dollar crisis. The problem lies elsewhere—in the psychology of the foreign exchange markets. The real fear is that with the balanced budget amendment defeated, U.S. policymakers will be loath to grapple with difficult choices on the spending side. At the same time, last November's ballot-box revolt made it likely that there will be tax cuts this year. A reduced capital-gains tax. A $500-per-child tax credit. Expanded individual retirement account allowances. The markets are worried that Congress will cut taxes without offsetting spending cuts. And in today's quicksilver global capital markets, currency markets can gather a powerful momentum all their own.

In the 1980s, before the Berlin Wall came down and the Soviet empire collapsed, the free world put up with Washington's profligacy because of shared national-security interests. Today, fear of communism no longer binds the globe. Instead, markets tie the world together. Global investors have decided that Congress can't backtrack on reducing the budget deficit. If Washington heeds the market and enacts real spending cuts before lowering taxes, America's economic fundamentals will assert themselves and the greenback will stand strong.

Farrell covers economics.

CHRIS USHER

"GRIDLOCK, SON"
With the defeat of the balanced budget amendment, Congress seems loath to grapple with difficult choices

GOVERNMENT DEBT: HOW THE U.S. STACKS UP

Percent of gross domestic product*

	NET DEBT INTEREST PAYMENTS	BUDGET DEFICIT
U.S.	2.1%	1.8%
JAPAN	0.5	1.8
GERMANY	3.8	2.4
FRANCE	3.4	5.0
ITALY	10.6	9.1
BRITAIN	2.6	4.7
CANADA	4.6	4.7

*1995 estimate, includes all levels of government

DATA ORGANIZATION FOR ECONOMIC COOPERATION & DEVELOPMENT

THE MEXICAN RESCUE IS DANGLING FROM A CLIFF

As U.S. aid is held up and frustration with Zedillo mounts, the prospect of default rises

Two managing directors from Soros Fund Management made the rounds in Mexico City recently, quietly consulting with politicians, bankers, and a vice-governor of the country's beleaguered central bank. Among their questions: How would the market react if Mexico defaulted on its more than $20 billion in *tesobonos*, the dollar-denominated bonds whose repayment has been at the root of Mexico's worsening financial crisis?

It would be disastrous for Mexico to revert to its rogue-debtor status of the 1980s, most people told the Soros directors. But as Mexico continues to flounder, such a dire event—inconceivable a few months ago—no longer seems out of the question. While only a few analysts believe default is the likely scenario, gloom is setting in as even the U.S.-led $53 billion rescue package fails to restore confidence. Mexico, it appears, has not hit bottom yet. Says Rogelio Ramírez de la O, an economist who heads consulting firm Ecanal in Mexico City: "The writing is on the wall about how difficult it is going to be."

"FOR HIRE"
A deep recession may set in, with the economy shrinking by 4% to 5% this year

The crisis is building on three main fronts. As Mexico and the U.S. face off over terms of the bailout, Mexico's economic plight is worsening by the day. Meanwhile, the Mexican government fears that as much as $13 billion of the package may be delayed or withdrawn because of the tough conditions attached and reluctance by commercial banks to pony up their share of the funds. To top it off, Mexico's banking system is fraying badly—and may need as much as $9 billion to shore up capital and make up for past-due loans.

STRICT GUIDELINES. Such fears are stirring real worries that the bailout program might not be enough to contain Mexico's economic crisis—and that default is a possibility. As the depth of Mexico's worsening recession becomes clear, analysts wonder whether the country will be able to service its $153 billion foreign debt obligations—at least $45 billion of which must be paid this year (table).

This big chunk of debt—three times the amount paid last year—is falling due at a time when tax revenues are plummeting because of the recession. And Mexico won't be able to print money to pay the bills as it is under strict constraints from the International Monetary Fund and the U.S. Treasury. The falling peso further aggravates the payments crunch by raising the cost of servicing dollar debt for both corporations and the government.

Government officials express concern. "I think today it is very difficult to have a precise idea of what the government will be able to roll over," says Alejandro Valenzuela, Director General for International Affairs in the Mexican Finance Ministry. "We have to assume [the markets] will remain pessimistic for the next few months."

Facing a myriad of economic and political woes, President Ernesto Zedillo Ponce de León spooked the markets by delaying the announcement of his economic program. The failure of a Mexican bank, Banpaís, and its takeover by the government sparked fears of more bank failures and sent the peso plummeting 14%, to as low as 7.3 pesos to the dollar on Mar. 6.

Mexican officials are increasingly alarmed that the U.S. bailout package is trickling to Mexico too slowly—and that it won't stem the panic. Of the amount initially promised, Mexico has received only $10.5 billion—$3 billion from the U.S. and $7.5 billion from the IMF. And officials in Washington have made it clear that the next $7 billion of the $20 billion in total funds from the U.S. Treasury will not be forthcoming un

til Mexico complies with a series of strict requirements.

The first such test comes at the end of March, when IMF and U.S. Treasury officials descend on the central bank to pore over its books. "The main problem is timing," says one frustrated Mexican official. "We would be seeing a different story today if they had given us the money the day after the agreement was signed. Then the market would have perceived it as real money."

The delay may make it difficult for Mexico to comply with the U.S. Treasury's tough fiscal and monetary guidelines, officials say. "It's the chicken and the egg," fumes one government source. "We can't comply with the economic goals if we don't get the money soon, and we can't get the additional money unless we comply with the goals." Among the goals are a curb on the growth of money supply and 19% inflation for the year. But in February, inflation was running at an annual rate of 55%.

ZEDILLO WATCH

"If U.S. aid had come right away, says a Mexican official, "then the market would have perceived it as real money"

TROUBLED BANKS. Mexican officials also worry that some banks and institutions may hold back part of the package. A $10 billion bridge loan promised by the Geneva-based Bank for International Settlements may come too late to do Mexico any good, officials fear. And $3 billion pledged by a group of international commercial banks is unlikely to be disbursed, officials say, because the banks are wary of tossing fresh money Mexico's way.

Finally, Mexican officials say privately that they may have to spend heavily to rescue a number of troubled banks. The Mexican government already has spent about $1.2 billion to rescue two banks that failed late last year—Banca Cremi and Banco Unión. For the much bigger Banpaís, the bailout cost has not yet been established. And bad loans may drag down other banks. Some even report that financially sound corporate clients are refusing to pay. They prefer to cough up a minor penalty and instead invest their spare cash in high-yielding fixed instruments until the crisis passes.

In the meantime, the Mexican government has been depending heavily on several U.S. investment banks, especially J.P. Morgan & Co., for help in negotiating terms of the U.S. bailout package and coming up with alternative schemes for refinancing *tesobonos*.

While the government struggles to contain the economic turmoil, political turbulence is mounting. Zedillo took heat on Mar. 7 as Mexico's Congress angrily debated the tough terms Washington imposed in exchange for the bailout loans. Despite opposition, Congress was expected to approve the aid package. And the government was likely to release its long-awaited economic plan soon after the vote on the bailout.

But few investors expect the new economic targets to greatly improve the business climate. "Unless we have something absolutely dramatic, unexpected, creative, and tangible, it will have no impact, because it's months late," says Philippe Mellier, the newly named president of Ford Motor de México. Indeed, the consensus economic forecast is for a drastic slowdown of 3% to 5% this year.

With little to offer on the economy, Zedillo seems to be trying to buy time with such spectacular moves as jailing the brother of his predecessor, Carlos Salinas de Gortari, and offering unprecedented power to opposition parties. Still, as Denise Dresser, a political scientist at the Autonomous Technological Institute of Mexico, points out: "Democracy doesn't fill the belly." It also may not be enough to pull Mexico out of its economic nosedive.

By Geri Smith and Stanley Reed in Mexico City

MEXICO STAGGERS UNDER A HUGE FOREIGN DEBT...

	BILLIONS
PUBLIC	$89.3
PRIVATE	45.8
TESOBONOS HELD BY FOREIGNERS*	18.0
TOTAL	$153.1

...AND A CRUSHING PAYMENTS BURDEN

	PAYMENTS DUE IN 1995 (BILLIONS)	EST. 1995 PAYMENTS AFTER ROLLOVERS (BILLIONS)
PUBLIC DEBT	$6.0	$6.0
TESOBONOS HELD BY FOREIGNERS*	18.0	16.0
TESOBONOS HELD BY MEXICANS*	11.0	5.0
PRIVATE DEBT	6.0	6.0
INTERBANK LOANS	13.0	8.0
BANK CDs	8.0	4.0
OTHER CREDITS	3.0	1.5
TOTAL	$65.0	$46.5

*Classified by Mexican government as domestic debt

DATA: MEXICAN TREASURY, ECANAL

HOT SPOT Singapore's exchange is a hub for derivatives trading

HAS SINGAPORE GOT WHAT IT TAKES TO BE A FINANCE POWERHOUSE?

It's caught between a restrictive regime and the information demands of global trading

Damage control was the order of the day in Singapore on Mar. 4. At a press conference to explain the government's take on the collapse of Barings PLC, officials declared Singapore couldn't be blamed for the British bank's reckless futures trading. To prove their point, they used an overhead projector to flash letters from Barings officials declaring Singapore-based trader Nicholas W. Leeson a loose cannon. "We cannot help it if a company does not regulate its operation," said Elizabeth Sam, chairperson of the Singapore International Monetary Exchange (SIMEX). The next day, Prime Minister Goh Chok Tong said regulators had handled the crisis "very well."

Even as they expressed confidence in their system, however, Singaporeans were announcing measures to increase controls. The SIMEX, which has grown fourfold since 1992, would now have tighter rules, including new restrictions to prevent traders from settling their own accounts. Officials also pushed ahead with legislation licensing futures traders. Meanwhile, local banks came up with a $300-million standby loan for SIMEX to guarantee that any losses would not be passed on to its 68 member firms. "If SIMEX went down," says one regulator, "we didn't want all of the other parties to be dragged down with it."

The bureaucrats had good reason for concern. The trades that brought the bank to its knees happened on Singapore's turf, putting its reputation as a financial center on the line. Outsiders have called into question the actions of Singapore authorities in the weeks before the Barings collapse. They have also wondered about the lack of self-regulation among some SIMEX traders. Chicago Mercantile Exchange Chairman John F. Sandner says his exchange, which has maintained close ties with SIMEX since its founding, would have never allowed Leeson to build up such huge bets. Such trading "could not have taken place" in Chicago, Sandner says.

The Barings episode comes at a time when Singapore is pushing hard to become Asia's premier financial center after Hong Kong reverts to China's control in 1997. The country has already moved beyond low-wage assembly industries t

The island sees a chance to elbow aside Hong Kong, which reverts to China's control in 1997

ecome a showcase for high-tech ıvestment by multinationals. Now, ingapore's top-level planners are etermined to carve out a place or their tiny country in the orlds of international finance and ommunications. The paradox is hat the country's ambitions in fi-ance and communications require reative minds and an unimpeded ow of information, while the na-ion's officials routinely restrict hat its citizens read in the news-apers and watch on TV.

AX BREAKS. Singapore has spent he past decade trying to prove hat such a tricky balancing act an be done. And the country has ade some impressive gains. Fi-ancial-service industries, which mploy 4% of the workforce, grew ore than 30% in the past two ears and account for 13.5% of ross domestic product. Singapore as the world's third largest for-ign exchange market. Led by roducts such as futures in the ikkei 225, SIMEX has become ast Asia's unchallenged hot spot r a raft of derivatives, competing gainst the more costly and more eavily regulated Osaka exchange.

WHAT SINGAPORE HAS ACCOMPLISHED...

- The world's third-largest foreign exchange market
- Asia's center for many derivatives products
- Regional financial center for foreign banks and securities firms
- High-tech manufacturing base for multinationals

...AND WHAT COULD HOLD IT BACK

- Tight controls over information available to its citizens
- Strong pressure to discourage criticism of government policies
- Small size of domestic equity market and increased competition from neighboring countries
- Regulatory system that hasn't kept pace with changes in derivatives industry

DATA BUSINESS WEEK

Singapore has also become a banking center. The 127 for-gn banks with operations there have made it a regional base r loan syndications. And despite complaints from research alysts that they can't speak out on issues sensitive to the overnment, 90 fund-management firms have flocked to the untry, lured in part by the government's moves to allow for-gners to manage more than $50 billion worth of retire-ent and government funds by 2000. In 1994 alone, institu-ons ranging from Lehman Brothers and CS First Boston to rédit Lyonnais and Commerzbank arrived.

The strengths in its financial markets mirror the coun-y's overall gains in the global arketplace. Per capita income is 2,000 a year, and U.S. compa-es alone have invested $20 bil-n and employ 91,000 Singapore-ıs—or 1 in 16 people. With pirations of becoming a commu-cations hub for Asia, Singapore's aders have granted generous tax eaks to broadcasters such as PN, Walt Disney, and HBO, which e setting up their Asian head-ıarters in Singapore.

DETERMINED
Elder statesman Lee Kuan Yew is a foe of Western influences

Attractions include an English-eaking workforce and top-notch frastructure. Taxes on financial rvices are low, at about 10% of ofits. Unlike pollution-clogged ngkok or Taipei, Singapore has rict controls on traffic, so its ads are rarely clogged even during rush hour—and ugainvillea graces highway overpasses. The island of 3 llion also has the advantage of some very large—and fast-owing—neighbors such as India and Indonesia. For com-nies hoping to enter those countries, Singapore is a more asonable base than distant Hong Kong. "The more growth, the more reasons for multinationals to come to Singapore," boasts Trade & Industry Minister Yeo Cheow Tong.

All of which is what attracted Barings to set up in Singapore. What went wrong? At their press conference, officials said they expressed concern about Leeson's trading positions in January but received assurances from Barings that it could cover his positions. Barings even sent nearly $900 million to cover potential losses. Regulators pressed for more guarantees, and Barings group treasurer Anthony Hawes flew to Singapore in January to assuage fears.

Still, the debacle highlights the strains in Singapore's regulatory system as it tries to police the rapid growth of trading in derivatives. For three years, SIMEX officials were oblivious to the fact that Leeson had a dangerous degree of control—not only of massive high-risk bets on futures but also the settlement of accounts.

Even SIMEX boosters see room for improvement. Patrick H. Arbor, chairman of the Chicago Board of Trade, which is currently negotiating with the 11-year-old SIMEX to develop closer ties, says the younger exchange lacks experience in how to deal with crises. "We would have gone to the chairman or CEO [of Barings]," he says. Arbor and Commodity Futures Trading Commission Chairman Mary Schapiro also fault SIMEX, as well as Japanese exchanges, for freezing assets of Barings' customers for several days during the crisis. The Singapore Monetary Authority, however, says no funds were frozen. Regulators had "no uniform procedures for immediate transfer of positions and margin deposits to other firms," says Arbor. "That was the real flaw."

The Singaporeans say their officials had received assurances from locally based Barings executives that their internal controls were sound. "They were senior people, and Barings was a strong organization with a long track record," says one Singapore official close to the investigation. "Up to a point, SIMEX had to take them at face value."

JOURNALIST CRACKDOWN. Beyond the Barings case, however, some analysts question whether Singapore's tight controls on information will hinder its efforts to join the big leagues. Since many of the country's main companies are state-owned, analysts in Singapore have to be "careful about being critical," says a former head of research for a major merchant bank in Singapore. A Singapore-based derivatives trader agrees: The constraints on research—real or perceived—"are in the back of everyone's mind who has to rely on local information."

The government has criminalized the printing of leaked economic data, considered a legitimate part of a reporter's job in Western countries. After a local business newspaper in 1992 published an unauthorized growth estimate acquired from the Monetary Authority of Singapore (MAS), the government threatened an MAS official, two newspaper editors, and two securities analysts with jail terms for breaking the Official Secrets Act. They were each fined up to $3,800 last year.

Even analysts for major U.S. brokerages refuse to comment on anything controversial in Singapore because they fear hurting their business. The Singapore-based head of foreign exchange trading for a leading firm says that discussing

R. IAN LLOYD

even the Singapore currency with the media is "taboo."

For its part, the government doesn't think that the constraints have curtailed Singapore's attractiveness. One MAS official says that the number of locally based financial analysts is growing. "It's in the government's interest to promote the number of analysts because we want to promote Singapore as a research base," he says.

But the government's determination to avoid losing control of its markets has prevented it from achieving clear financial hegemony in the region. "Singapore's biggest problem is that it's overregulated," says William H. Overholt, managing director of Bankers Trust in Hong Kong. The ability of foreigners to buy local stocks has been heavily restricted. Borrowing by foreigners of more than $3.6 million in Singapore dollars on the local swap market can only be done with permission of the MAS, and the borrowers must assure the bureaucrats that the money will be used for investments or trade financing—not speculation.

Partly as a result, Singapore's domestic equity market is not as big as others in the region. While Hong Kong can rely on new listings from Chinese conglomerates, Singapore is attracting few big names from outside the country to list on its bourse. Thailand and Malaysia, which have stock markets with bigger market capitalizations, are competing with Singapore by trying to increase their own attractiveness as regional hubs.

COME HITHER. Singapore counters by demonstrating its ability to attract new direct investment. In 1994, it recorded nearly $4 billion in contracted manufacturing investments, a 49% increase over 1993. Disk-drive maker Seagate Technology Inc., which has invested more than $500 million in production and research facilities, employs 13,500 locals, making it the largest private-sector employer. Singapore, says Joel A. Stead, Seagate's vice-president for marketing and sales for the Asia-Pacific region, is "disk-drive heaven." Singapore captures more than 70% of the market, and virtually all heavyweights in the disk-drive business—Western Digital, Conner Peripherals, IBM—have a significant presence there.

PROSPEROUS
The nation's largely English-speaking workforce enjoys a per capita income of $22,000 a year

In a push to become the key hub in Asia, Singapore has launched a campaign to entice Western and Japanese companies to set up regional headquarters on the island. Nearly 70 claim Singapore as their "operational headquarters" from which they oversee business in the region. Unisys Corp. decided last March to move its regional headquarters from Hong Kong, where property prices are astronomical, to somewhat more affordable Singapore. Caterpillar Inc. claimed "business-headquarter" status in Singapore last July.

The government wants to mimic that success in communications—a far more challenging goal in such a controlled nation. ESPN Inc. looked at Hong Kong before deciding last year to build its 44,000-square-foot facilities in Singapore. The country's Economic Development Board offered ESPN pioneer status, tax holidays, training subsidies—and guaranteed a license, something Hong Kong could not promise beyond 1997, says Harold Anderson, vice-president of programming and production, ESPN Asia (Singapore) Ltd.

Challenges are far greater for news broadcasters. CNN and CNBC have opted to place their main facilities in Hong

Kong. CNBC says it feared pressure from Singapore's government, which is sensitive about coverage of Singapore as well as that of its neighbors. Even after the Chinese takeover in 1997, Hong Kong looks better than Singapore, says Bu Pratt, director of network development for NBC Asia. "Chin is easier on foreign reporters than Singapore," he says.

Some critics of Singapore argue that the advent of unfet tered communications on the Internet will ultimately crac Singapore's grip on information. Not so, says the goverr ment. Singapore is setting up what Information and Art Minister George Yeo calls a "neighborhood police post" for th Internet. Manned by the Singapore Broadcasting Authorit the innovation will allow people to alert authorities of pornog raphy and other kinds of cybersleaze on the Net.

Such moves may indicate how Singapore's leaders will re spond to other challenges to their control. Leaders such as Se nior Minister Lee Kuan Yew are determined to keep ou what they see as corrupting Western influences, so they ma never totally open up their country. The Barings case doe not seem likely to force wholesale regulatory changes. Instea as they push to join the sophisticated worlds of internation finance and communication, the Singaporeans will try to adju their ordered system only at the margins. The question whether that will be enough to succeed.

By Joyce Barnathan, with Pete Engardio and Ellen Whi in Singapore, Dave Lindorff in Hong Kong and Greg Burr in Chicago

Singapore plans a "neighborhood police post" to scan the Internet for pornography and other cybersleaze

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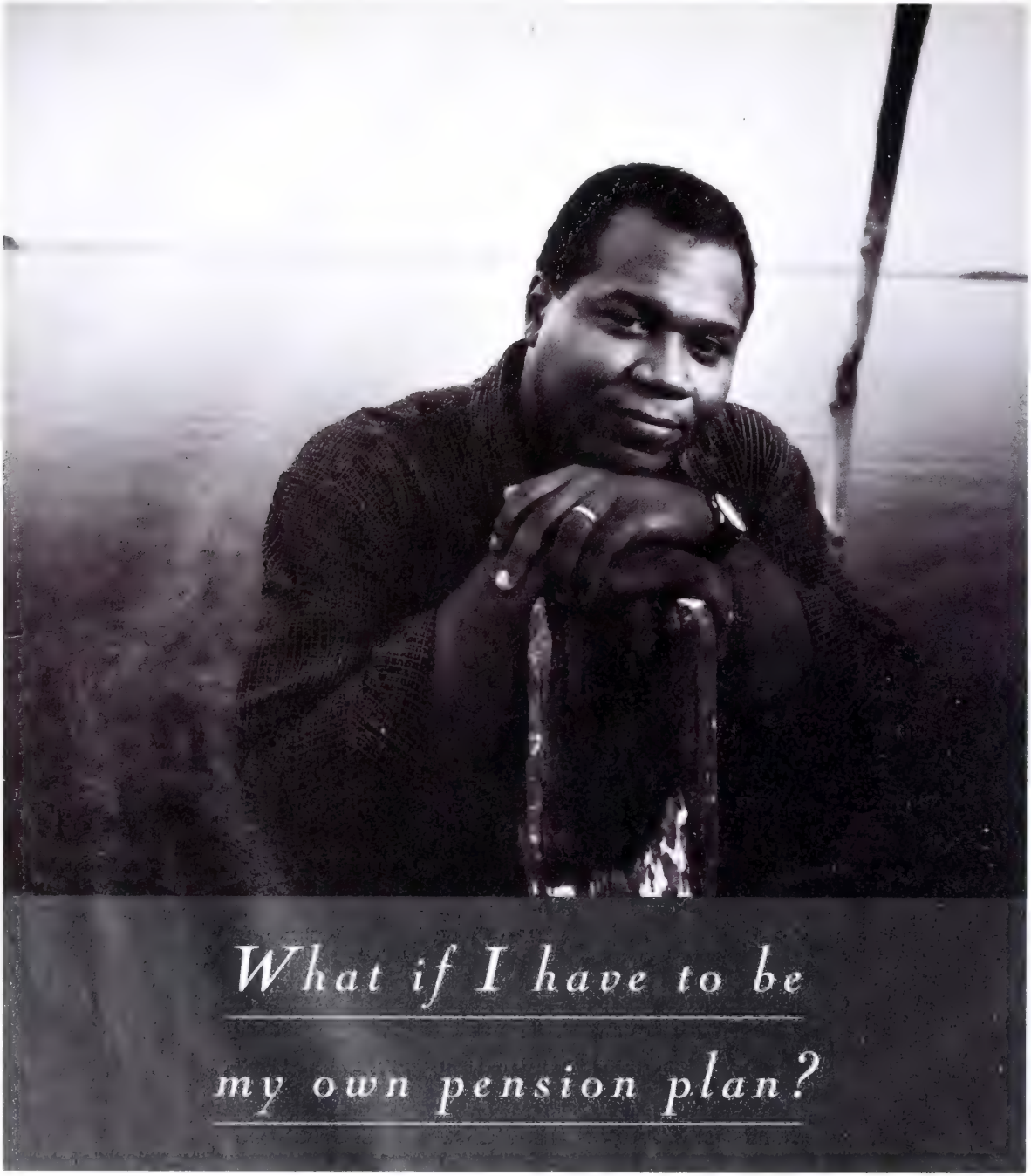

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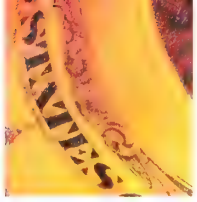


Retirement Planning: The Future Is Now

When it comes to retirement planning, the buzz word these days in employee benefits is "options." In small and large companies, thanks to defined contribution plans, life cycle plans, SERPS and the like, employees are playing a more active role in choosing their retirement and medical services.

The same trend can be seen in small businesses and with the self-employed. Both groups are taking more initiative in choosing investment vehicles as the popularity of money purchase plans, annuities, and flexible benefits attest.

What has caused this trend? A number of factors. For one, the harsh realities of corporate downsizing has forced many companies to reevaluate their benefit programs. "Two sets of objectives pull in different directions: Human resources and financial," says Joel I. Rich at William M. Mercer Co. "The equation is a trade-off between cost and level of benefits."

The New "Add-Ons"

These realities have prompted many corporations to reevaluate their retirement programs and benefits in a soup-to-nuts fashion. In the worse cases, middle sized companies are freezing their defined benefit pension programs and eliminating retiree health-care benefits.

But more frequently companies are searching for compromise: ways to reduce the cost of the pension through a hybrid perhaps, or defined contribution plan like a 401(k).

At the same time, some companies are broadening their other benefits, many times to the advantage of retirees. Long-term health care, for instance, is a hot new "add-on." Although very few companies now offer it, a recent study reports that 20% are studying it.

What makes these newer "add-ons" so appealing is that the company buys them at bulk rates passing the cost-savings on to the employee. "It's a way of trying to meet the needs of the employee in a way that does not cost the employer very much," says David Parks, an employee benefits consultant with Mason Associates in Herndon, VA.

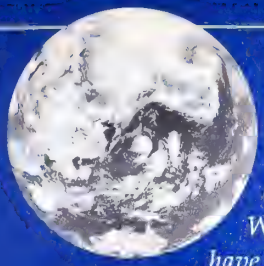
Saving for Retirement

With the lengthening lifespan today, most Americans are aware that they may live much longer than their parents. A 40-year-old man today can expect to live to 81 after retirement at 65; his wife may live until 87. This longer lifespan costs more to finance in retirement. It also requires planning for more items like long-term health-care insurance,

Minimum Level of Savings Required for a Typical Household to Remain on Track for Retirement (in 1993 dollars)

Household Characteristics		Retirement assets accumulated by age			
Married Couples		35	45	55	65
	Earnings = $50,000	$8,460	$22,910	$88,940	$170,000
	Earnings = 75,000	17,450	59,410	166,440	309,650
	Earnings = 100,000	33,950	108,950	271,280	483,460
	Earnings = 150,000	66,920	208,980	485,630	839,800
Single Men					
	Earnings = $30,000	$3,080	$25,830	$61,770	$89,770
	Earnings = 50,000	6,310	31,630	87,920	158,670
	Earnings = 75,000	15,180	73,280	182,510	314,950
	Earnings = 100,000	27,630	120,780	284,200	480,040
Single Women					
	Earnings = $30,000	$25,680	$48,400	$77,990	$100,490
	Earnings = 50,000	35,290	67,480	117,930	175,170
	Earnings = 75,000	61,520	127,890	226,460	333,020
	Earnings = 100,000	90,700	196,640	347,150	508,870

Figures are dollars needed in addition to pension. Without a pension, you'll need to save much more. And since women generally live longer, earn less, and are less likely to be covered by a pension, they need to save even more than men.
Source: Merrill Lynch, 1994 Baby Boom Retirement Index



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Retirement Planning: The Future Is Now

living wills, and health-care proxies.

No wonder Americans are more concerned than ever about building up their retirement savings. But despite this concern, the average baby boomer household saves at only one third the rate necessary to finance an adequate retirement, according to Merrill Lynch.

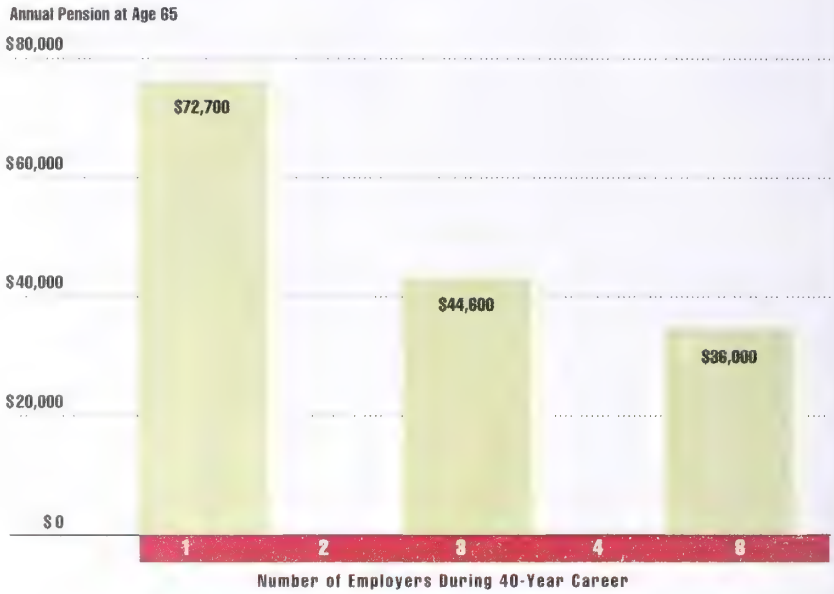
Look at the chart on the preceding page to see where you should be at your age and salary level in terms of personal savings. This example assumes that you will have a pension coming to you when you retire. Without that, you'll need to save considerably more. Indeed, even though the three-legged stool of pension, Social Security, and personal savings remains the model for retirement savings, two of those legs seem particularly wobbly. They are Social Security, which is being taxed and which has a ceiling anyway, and pensions. As people change jobs more often and retire early, they find themselves with smaller pensions or lump-sum distributions.

How can people avoid the savings "shortfall" that Merrill Lynch keeps talking about in its baby boomer surveys? The key, according to retirement planning professionals, is planning carefully in two key primary areas: investments and medical benefits.

On the investment side, Americans still have a number of tax-advantaged accounts they can use to build up assets. These include the defined benefit (DB) pension plan, defined contribution (DC) plans like 401(k)s, Individual Retirement Accounts or (IRA), Keoghs, and SEP-IRAs. Then there are annuities which combine the advantages of tax protection and insurance.

No wonder Americans are more concerned than ever about building up their retirement savings.

How Changing Jobs Affects Your Pension



This chart shows how the size of your pension decreases as the number of job changes increases. It assumes a $14,200 startup salary and pay increases of 5% a year to $100,000 at age 65.

Source: William M. Mercer, Incorporated.

The Defined Benefit Plan Becomes a "Floor"

In large corporations, the defined benefit plan still forms the core of most retirement programs. In fact, 50% of all employees are still covered by these plans. But these plans worry employers because of their high cost and regulatory complexity. In addition, many companies feel employees don't understand DB plans and are more appreciative of 401(k)s.

"Psychologically, the lump sum in a 401(k) is easier for the participant to understand, as opposed to a pension annuity of lifetime income," comments Donald J. Segal, vice-president and actuary with The Segal Company. "How does he or she put a value on that?"

The result has been the creation of a number of hybrid DB plans that look like DC plans but fulfill the obligations of DB plans. These come in all shapes and sizes. Cash balance, life cycle, and "floor" plans are among the most popular today.

Cash balance plans are the simplest. The company sets up a "phantom account" for the employee that is credited with an employer contribution and investment earnings at a prespecified rate each year (say, 5% of salary accumulating at

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† Source: Morningstar, Inc. 1/31/95. Morningstar proprietary ratings reflect historical risk-adjusted performance as of 1/31/95 and are subject to change every month. Funds with at least 3 years of performance history are assigned ratings from 1 star (lowest) to 5 stars (highest). These ratings are calculated from the fund's 3-, 5- and 10-year average annual returns in excess of 90-day Treasury bill returns with appropriate fee adjustments and a risk factor that reflects fund performance below 90-day Treasury bill returns. 10% of the funds in an investment category receive 5 stars; 22.5% receive 4 stars; 1,146 equity funds were rated for the 3-year period.

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the 30-year treasury bill rate). At retirement, these accumulations are added up and the employee can take this money either as a lump sum or an annuity.

Life cycle plans go one step further. They combine the phantom account, using percentages rather than dollars. In Nabisco's new life cycle plan, for instance, the employee receives a certain percentage figure for each year of employment. The percentage rises as the employee gets older. At retirement the total of these percentages is multiplied by final average income to come up with the retirement benefit.

401(k) plans with their pre-tax build-up represent a very attractive investment vehicle for employees.

The Attraction of Life Cycle Plans

"This plan is attractive at any point in your career," says Nabisco employee benefits professional Karen Manning. "As you get older, you begin to accrue at a higher percentage." This plan is ideal for the older worker joining the company in mid-life. He or she accumulates pension benefits at a higher rate than a younger worker. Also, employees are not penalized when they leave the company with an early retirement provision that reduces your benefits if you retire at 55.

A third type of non-traditional DB plan is the "floor-offset" plan which guarantees a certain level of benefits from the combined results of the DB and DC plans. "It's not the simplest plan to administer," admits Segal, "But it's a nice transition for employees. It gives the protection of a DB plan in case the DC plan does not do well. So it gives the employee the best of both possible worlds."

Despite the surge in such variations, many professionals think traditional DB plans offer the most security. "I'm still a firm believer in pension plans," says Richard Koski, a specialist in plan design at Buck Consultants. "The idea of an annuity stream of income is what most people need in retirement. That's different from going through the bother of saving the money yourself and managing it. A lot of people can't do it."

DC Plans "Hot" in the Small Business Market

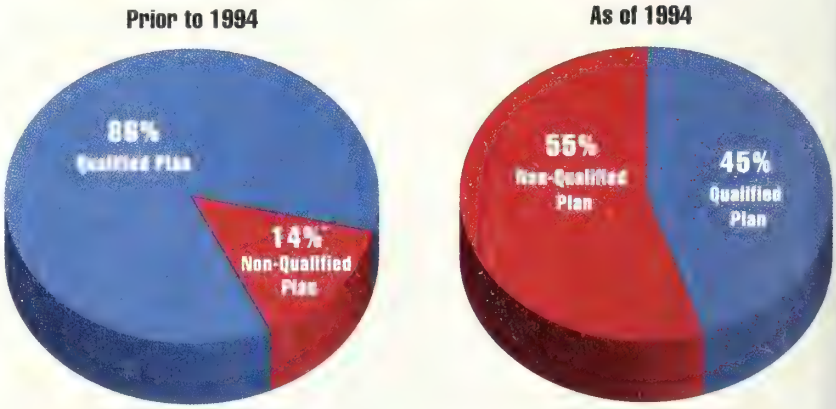
Despite such views, the trend toward defined contribution plans like 401(k)s and away from the traditional pension product goes on. In fact, it's a real continuing explosion. Assets in 401(k)s have more than doubled over the last five years from $230 billion to $475 billion, while the number of plan sponsors offering them has climbed from 134,000 to 210,000 according to Access Research's 1994 *Marketplace Update.*

As these assets have grown, so have the players offering to provide plan sponsors with these complicated vehicles. The biggest winners in this administration scramble seem to be third-party administrators and mutual fund groups, according to Access Research, while the market share of banks and insurance companies is falling.

401(k) plans with their pre-tax build-up represent a very attractive investment vehicle for employees because they can see their balances grow on a quarterly statement. These plans used to be used

How the $150,000 Cap Affects Retirement Income

Example: 44-year-old executive earning $133,000*



Prior to 1994, the company's qualified plan covered 86% of this executive's retirement income needs. Since 1994, this figure has fallen to 45%. The company must generate the rest (55%) with non-qualified benefits. Source: The Todd Organization, Inc.

*An executive's age and salary will alter the mix of qualified and nonqualified benefits.

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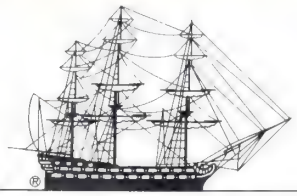

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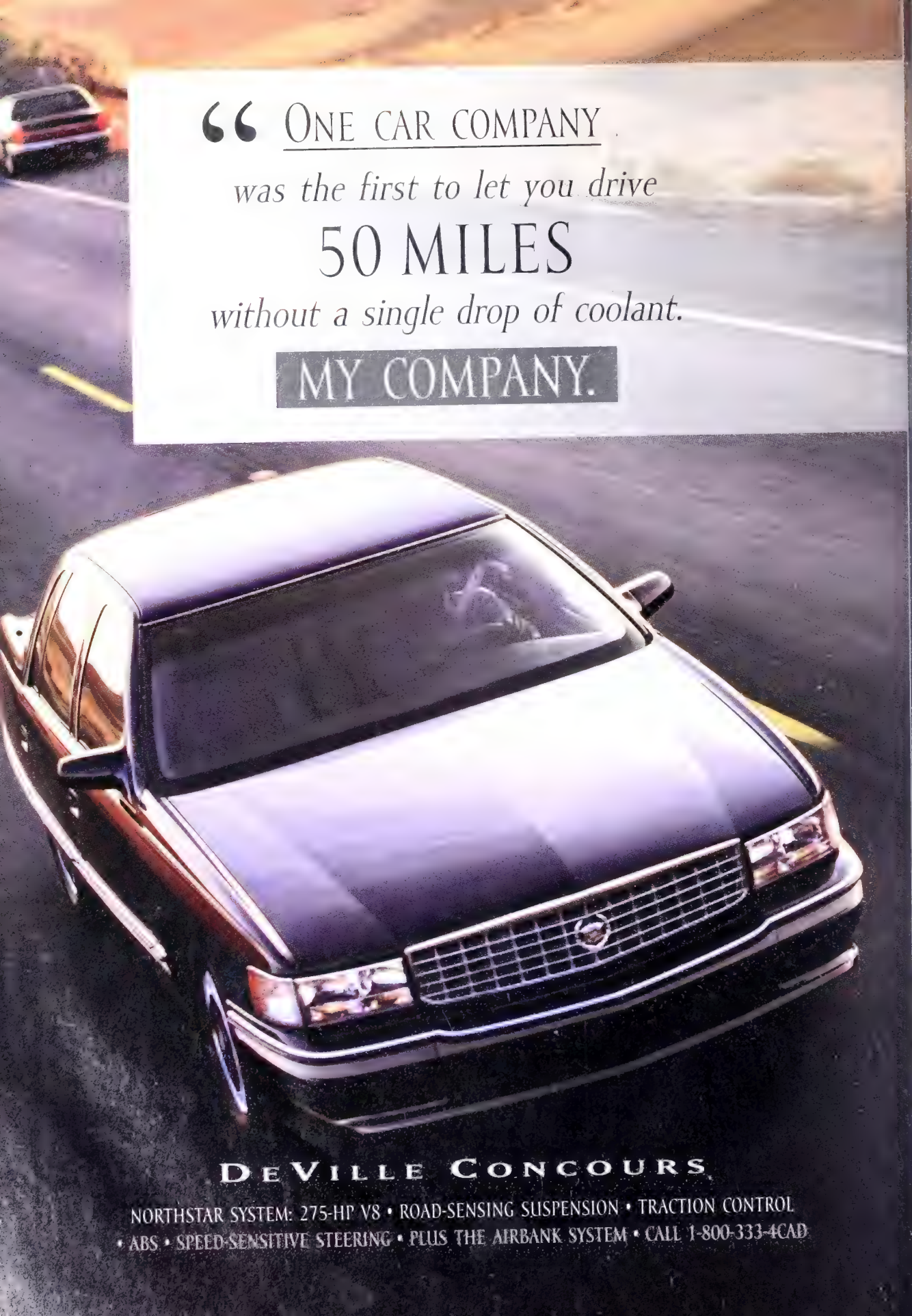
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primarily by large corporations. They were too expensive for small businesses because of all the recordkeeping and communications required for plan participants. Now this is changing for businesses with from 50 to 300 employees because the price tag on these plans has come down.

"401(k)s have become very affordable. So they can be just as effective in a small company as in a large company," explains Parks, who frequently acts as an advisor to small businesses.

Today, many large mutual fund providers offer a prepackaged, off-the-shelf 401(k) plan. Typical of these is T. Rowe Price's Century Plan, launched in 1993, for companies with 300 employees or less. The Century Plan costs employers $1080 for a one-time set-up charge, then $1650 plus $25 per participant (with a $2300 minimum) for annual administration.

"It's been very successful," says Joseph Healy, vice-president for retirement products at T. Rowe Price. "We can deliver 80% of what a large company gets under a customized plan. It's the extra 20% that runs the price up to $10,000-$20,000 when you develop your own 401(k) plan from scratch."

Freezing DB Plans

In a parallel trend, some small business owners are freezing their defined benefit plans or even phasing them out. They are also closing down Keoghs. This usually happens when the business owner becomes aware that the amount he can put aside each year for retirement has been dramatically reduced by changes in tax laws. This happened in 1994 after Congress lowered the covered compensation cap for highly compensated employees (HCEs) to $150,000 from $235,000.

"Now that their own benefits have been restructured, what they get is not equal to what their employees get," explains Parks. "It's now costing small business people a lot more to pay for employee DB plans. So they are less inclined to put one in place."

Popularity of 401(k)s Continues to Grow

At large employers, 401(k)s continue to boom. Companies like these plans for a number of reasons. They give employees a sense of ownership. Employees like seeing their balances grow. And these plans usually cost considerably less than DB plans, particularly when it comes to insurance costs.

The high level of 401(k) balances – $32,018 for the average employee, according to KPMG Peat Marwick – attests to their popularity. But employers worry about the ability of plan participants to invest wisely.

"Employers are concerned that employees are not making the best investment decisions," observes William E. Chapman II, executive vice-president for marketing at Kemper Mutual Funds. With 401(k)s the participant decides how much to invest and where, not the employer as with DB plans.

Historically, equities have outperformed fixed-income investments over time, and thus are considered important for long-term retirement.

Many employees still invest too conservatively today in fixed-income investments like Guaranteed Investment Contracts (GICs) rather than equities which are more appropriate in larger proportions for a retirement investment vehicle. Access Research reports that employees still keep 27% of their 401(k) assets in GICs and only 19% in either equities or balanced accounts. Historically, equities have outperformed fixed-income investments over time, and thus are considered important for long-term retirement investing.

A second problem is employee participation. Highly compensated employees (HCEs) still participate more fully than other employees at most companies.

Two years ago the Department of Labor issued ERISA Sec. 404(c) to clarify investment liability. This regulation requires plan sponsors to offer at least three different investment options outside company stock, plus information on these options. This regulation led many companies to revise their 401(k)s and, along the way, launch new and broader participant education programs.

The result has been a huge wave of education products washing across participant's desks from workbooks and brochures to videos and PC diskettes. Initially, most of these were for enrollment purposes. But now plan participants find themselves receiving information on an ongoing basis.

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Are these education programs paying off? Some providers say they are. At Kemper, Chapman reports, "We see approximately half the 401(k) assets in equity or total return funds. That's very different from the norm. So we must be doing something right."

These issues have increased the push toward outsourcing retirement plans and other employee benefits, according to Douglas E. Klinger, senior vice-president for marketing and business development at Cigna. Today, outsource providers range from giants like Fidelity and Vanguard to many smaller employee benefit companies like Hazlehurst & Associates or Hewitt Associates. These smaller firms use alliances with other companies to offer a "bundled" service. They act as the central coordinator and recordkeeper.

"CFOs and treasury people say they'd prefer to focus on their own business not employee benefits," he says. "They are going to providers to design and run an entire program, so that HR can get out of the employee benefits business."

Klinger believes that "total outsourcing" is the wave of the future, and that it will be even more prevalent in the next five to six years. "Outsourcing is one way companies can pass some of the risk off to providers like ours more able to handle the liability," he adds.

> *The question of what to do with such large sums of money can be daunting.*

Focusing on Your Lump Sum Distribution

In the past few years, lump sum distributions have become very common. With the popularity of 401(k)s, it's easy for a person to get a lump sum distribution of, say, $20,000 or $30,000 from an employer, when changing jobs. And those early retirement packages are frequently much bigger. The question of what to do with such large sums of money can be daunting.

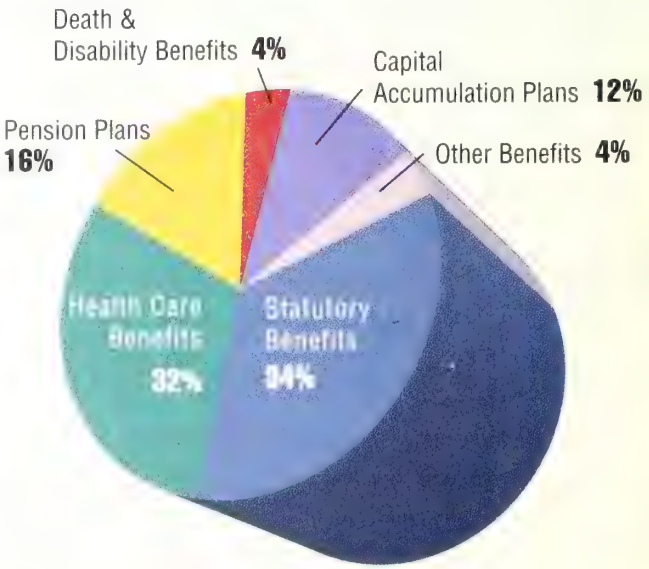
When you leave a company, according to Denise Patridge, director of retirement products for Schwab, the first rule is "To preserve what you have when you leave your job." In general, you have four options: You can leave the money with your former company until you get a new job; you can put this money into your next employer's 401(k); or you can place it in a rollover IRA with a bank, brokerage firm or trust company.

Above all, don't let the company make the check out to you. In that case, the money will be subject to a 25% withholding penalty. "You don't want to see your $10,000 go down to $8,000," says Patridge.

The fourth option is a "conduit" IRA. This is for those who think they might like to bring the money with them to a new employer. But they don't have that new job yet.

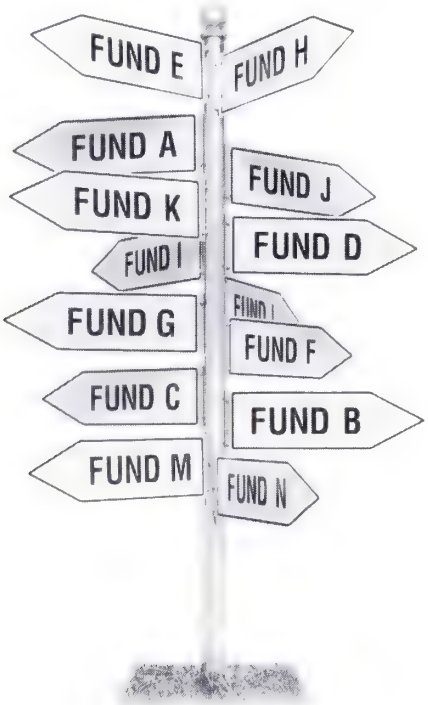
"In a conduit IRA, the money will continue to grow. Then you have the option of rolling it over with your next employer," explains Isabel Ford, retirement product manager with Scudder, Stevens and Clark. You are not allowed to make contributions to your conduit IRA. If you do, it will be considered "tainted" and you can't bring it with you to your next employer as the core of your new 401(k).

Average Benefit Cost in Percentage of Total Benefit Cost*



*The sum of the component average costs exceeds 100% because not all participants have or pay for all the types of benefit categories. Source: 1994 Hay/Huggins Benefits Report

CONFUSED ABOUT WHICH WAY YOUR 401(K) DISTRIBUTION SHOULD GO?



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But there are good reasons to keeping an IRA with a financial firm rather than an employer. Financial firms offer many more investment options, while most corporations only offer three or four investment options with their 401(k)s. Sometime these are all from one provider.

"There are certainly some advantages to keeping your rollover IRA with a mutual fund family or brokerage firm," says Scudder's Ford. "After all there are over 4,000 mutual funds out there."

Changes in Strategy for the Self-Employed

Another good investment option open to all individuals is the Individual Retirement Account or IRA. Corporate employees can contribute up to $2000 each year, although it is not tax-advantaged.

For the self-employed, this account offers tax deferral. But many prefer to use a SEP/IRA which, until recently, let an individual put up to $30,000 away each year. However, the $150,000 cap reduced the amount that can be contributed.

There are several ways to get around this. One would be to open a Keogh profit sharing account. But with a Keogh the company must specify a schedule of future contributions. This is a difficult commitment for many small business people to make.

A better choice is to change a SEP/IRA into a money purchase plan or a combined company money purchase and profit-sharing plan. A self-employed person can deposit up to 20% of $150,000 in these combined vehicles thus ending up contributing the same amount, $30,000, as before this tax change.

SERPS, Rabbi Trusts, and GATT

Over the last couple of years a revenue-hungry Congress has continued to make saving for retirement harder by curtailing and limiting existing benefits. The best example of this is the lower cap of $150,000 for HCEs. But the GATT legislation also contained a negative. It froze scheduled indexing increases for certain other benefits.

Many companies have rushed out to set up non-qualified plans to compensate HCEs for the lower compensation cap.

"There is a big uptick in non-qualified plans at companies," comments Steven Price, president of The Todd Organization, Inc., specialists in this field. But non-qualified plans like SERPs do not offer the security of qualified plans which are funded by the company. So many corporations are going one step further and installing "safety devices" like rabbi trusts. These vehicles guarantee the extra income in the case of a company insolvency or takeover.

Many companies have rushed out to set up non-qualified plans to compensate HCEs for the lower compensation cap.

Looking at this entire trend, Price calls these cutbacks in benefits "income redistribution." "These limits have come down so low that there is a group in the middle affected but really not eligible for non-qualified benefits," says Price.

Reducing Retiree Health-Care Benefits

Medical benefits represent the second crucial area of retirement planning. On this side of the equation there is good news and bad. The good news is that companies are coming up with new benefits like long-term care insurance. The bad news is that they are cutting back on paying the premiums for retiree health-care benefits. This is an important issue for people before the age of 65 when Medicare becomes the primary insurer.

Companies are reducing retiree health-care benefits even though their overall health-care costs appear to have been brought under control for the first time in decades. From 1993 to 1994, for instance, health-care premiums increased an average of only 4.8%, the lowest raise in premiums since 1986, and the second straight year of single-digit premium increases, according to KPMG Peat Marwick's 1994 health benefit study.

But retiree health care is expensive. Companies pay an average of over $5,000 a year to insure a retiree under the age of 65, according to a Foster Higgins' 1993 health-care study. That's around $1,000 more than for other employees and $3,000 more than the over-65 employee who has Medicare as primary insurance.

No wonder companies have been paring back. The size of retiree health-care costs hit them shortly after FASB

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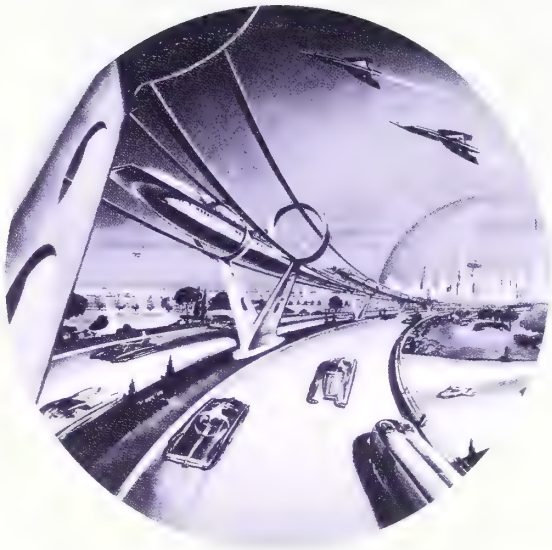

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106 went into effect several years ago. That regulation required companies to record their retiree health-care liability on financial statements. It brought home the large size of this liability. The result: one-third of all large employers reduced these benefits in 1991 or 1992 either by raising retiree premiums or increasing deductibles and co-payments, according to Foster Higgins. Seven percent eliminated the plan altogether for future retirees.

High Cost of Prescription Drugs

Companies are also trying to reduce retiree health-care costs by encouraging preretirees to join managed care networks. These are generally less costly than traditional indemnity care. Another strategy calls for reducing the cost of prescription drugs–in most cases from 25%-50% of total retiree health-care costs.

Companies have been instituting mail order drug programs, reimbursing more for generics than brand names, and even setting up formularies. HMOs have been using formularies for years to control drug costs, but they have only recently moved into the private sector.

A formulary consists of a list of preferred drugs in different therapeutic categories identified by experts as most cost-effective. The provider requires doctors to use the list in a "closed" formulary, or encourages them in an "open" one. By instituting an "open" fomulary in 1994, Arizona Public Service, says it will save 22% on prescription drugs by April.

Employee benefit professionals realize that people need different benefits at different times.

Long-Term Health Care

Greater longevity brings with it some mixed blessings. One of them is the increased probability of a need for nursing care. A Congressional study has estimated that 48% of all people over age 65 will one day need nursing home care. The cost of this ranges from $90- to $200-per-day in the average nursing home facility. Fifty percent of people entering into nursing homes stay an average of 2.5 years.

Long-term care policies can be expensive. But some private employers have begun to explore the possibility of offering this type of insurance to their employees at lower prices because of their bulk buying power. Last year Arizona Public Service, for instance, began offering a long-term care policy to its employees. An employee currently 55-years-old can buy a $100-a-day benefit for $45.30-per-month from Aetna through the utility. This comes out to $543.60-per-year.

True Life Cycle Planning

Looking at all the elements needed in retirement planning today, it seems as if a new more integrated approach to this challenge is developing in many companies. Employee benefit professionals realize that people need different benefits at differen times in their lives. They need a chance to accrue a decent pension, even if they make a mid-life career change. And they

need different special benefits when they are younger than when they are in the mid-50s.

"The needs of a 42-year-old with three small kids are very different versus another employee, the same age, with three kids in college," points out Edward J. Davey, national director of health and welfare services for Buck Consultants.

Because of this, Davey predicts that "Deliveries will be more integrated, covering different points in employees' lives." For instance, a day-care program might appeal to the employee with small children mentioned above, while a colleague might be more interested in investment seminars.

As for the traditional pension plan, Davey believes that "The defined benefit plan will deliver a minimum of benefits like a safety net." The result, of course, is true cycle planning where the employee picks and chooses, and makes his own decisions on how to supplement the DB safety net.

This "life cycle" approach may seem less secure than past retirement packages. But it almost certainly will provide the minimum needed. And in some ways it is more appropriate for the 1990s because of its flexibility. It puts the responsibility squarely on the shoulders of the individual, reminding him or her that when it comes to retirement, the future – and the time to start planning for it – is now.

This special advertising section was written by April V. Klimley, a New York-based business journalist who specializes in financial subjects such as tax and estate planning, pensions, 401(k)s, investment management, global investing and mutual funds.

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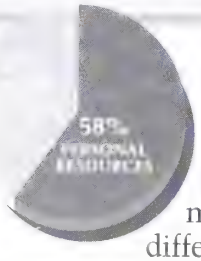

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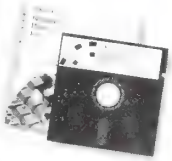

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A PRICE CLUB IN SEOUL: U.S.-MADE BRANDS ARE FACING COMPETITION

SOUTH KOREA

A FLYING LEAP TOWARD THE 21ST CENTURY?

Pressure from competitors and Seoul may transform the *chaebol*

The auditorium was packed with 200 employees and executives of LG Group, formerly known as Lucky-Goldstar. A six-piece ensemble played selections from Antonin Dvorák's *Humoresques* as Chairman Koo Cha-Kyung made a short but moving retirement speech. Breaking with iron Confucian discipline, the bespectacled chairman's voice filled with emotion as he addressed 100,000 employees watching via satellite TV. After years of pushing them for better performance, he apologized because "I never thanked you before."

With that ceremony on Feb. 22, the 70-year-old Koo ended his 45-year career in the conglomerate founded by his father. He handed control to his eldest son, Bon-Moo, 50, who promises to drastically reform the group's management and corporate strategies.

The youngest Koo won't be alone in restructuring one of Korea's powerful family-owned *chaebol*. These conglomerates, which blossomed during the heyday of government-business cooperation in the 1970s and 1980s, are finally coming to grips with transforming themselves into modern corporations.

NO MORE SHIELD. They are doing it partly under pressure from the South Korean government, which is determined to curtail the power and influence of the *chaebol* owners. To spur them on, Seoul is expected to fully open Korea's market in such sectors as telecommunications, construction, and autos by 1998. That will present the *chaebol* with much stronger competition inside Korea.

But aside from Seoul's pressure, the *chaebol* recognize that to make the leap to the next level of competitiveness against U.S., Japanese, and European multinationals, they must undergo an unprecedented restructuring. With less than 5% of their assets outside Korea, they plan to spend more than $20 billion by 2000 to set up overseas production bases and to acquire interests mostly in U.S. and European companies. At the same time, they are changing the

elationship between founding families nd professional managers and greatly ecentralizing decision-making.

And because a generation of business eaders is passing from the scene, the *haebol* are spinning off many companies hat will be managed by sons and other amily members. The most extreme exmple is the Hyundai group, which ould break itself into pieces. All this reects gut-wrenching cultural changes in ompanies whose management princiles were based on the Confucian philosphy of harmony and seniority.

Skepticism lingers about just how far he *chaebol* will go and whether deregution will be as fast as promised. "The ctions are always slower than the vords," says G. Paul Matthews, who is reating a San Francisco-based fund to ivest in Korea. Despite years of talk, a overnment report shows that the top 0 conglomerates still have an average f 21 companies and are involved in 20 iajor business lines. The Samsung roup, for example, has everything from irts to ships to semiconductors.

That overly broad product mix has eld back Korea's competitiveness. Alough some *chaebol* succeeded in one two industries, such as Samsung in emiconductors and Hyundai in shipuilding and auto, others generally reained simple subcontractors to Japaese, U.S., or European companies.

That's why Korean executives argue iat the current reforms have to be for eal. Gimmicks in the name of reform ill not work because the Korean ieap-labor advantage is long-gone. The cent opening of Price Club and other reign discount stores in Seoul, for exnple, is showing Korean companies at if they do not produce top quality oducts, their survival will be at stake. computer discount store sells a standrd imported IBM-compatible 486 multiedia PC at a price 20% lower than at of a comparable Samsung model.

In response, Samsung is gearing up aggressive international push. On eb. 23, Chairman Lee Kun-Hee sumoned his 30 senior executives to Los ngeles, where he ordered them to aclerate globalization. "By year 2000, % of our sales should come from ternational operations," Lee said—up om 20% now. Lee feels that shock erapy is necessary because the compa hasn't moved fast enough. "Our nds are internationalized, our actions en't," acknowledges one executive.

Samsung, which has been cautious in quiring foreign companies in the past, ys it will now pursue them. On Feb. the company acquired 40.25% of AST esearch Inc., one of the largest U.S. rsonal computer makers, for $378 miln. It's the largest equity position a

> Just how far will the *chaebol* go? "The actions are always slower than the words"

Korean entity has ever taken in a foreign company and will create a major new export channel.

Other groups also are on the march. LG Group is expected to pursue acquisitions of companies specializing in multimedia products. Hyundai Electronics Industries Co., which is Korea's second-largest semiconductor maker, has already taken over two U.S. companies: computer diskmaker Maxtor and a semiconductor division of AT&T, for $165 million and $340 million, respectively.

HIGH GOAL. Unlike the other conglomerates, Daewoo is concentrating on developing countries. Under its "world management" strategy, the group says that it will establish 600 companies overseas and post combined sales of over $200 billion by 2000. The goal seems unachievable, considering Daewoo's current sales of $40 billion.

Chairman Kim Woo-Choong is pushing forward nonetheless. In February, the group broke ground for a $300 million cement plant in China's Shandong province, where plans are also under way for a $1.5 billion auto-parts plant scheduled to open in 1997. In Uzbeki-

How the Big Four Stack Up...

NAME	SIZE*	MAIN BUSINESSES
SAMSUNG	$63	Electronics, autos, shipbuilding, aerospace, machinery
HYUNDAI	63	Autos, shipbuilding, electronics, construction, machinery
LG	48	Petrochemicals, electronics
DAEWOO	40	Autos, shipbuilding, electronics, construction

* BILLIONS

...And How They Are Changing

REDUCING NUMBER OF COMPANIES

- Samsung plans to cut its units from 50 to 24.
- Hyundai will merge and divest, reducing its companies from 50 to 23.
- LG is planning to merge several companies.
- Daewoo will merge and divest, leaving it with 14, down from 22.

REFORMING MANAGEMENT

- Samsung is decentralizing authority, giving more power to individual CEOs, and reducing the group chairman's clout.
- Hyundai will give more authority to professional managers.
- Daewoo companies will be run independently of the group's chairman, who will concentrate on managing its motor unit.
- LG plans to end the Confucian-based personnel management under which seniority was important. Job performance now will be key.

GOING INTERNATIONAL

- Samsung plans to set up integrated electronics facilities in China and Mexico. Also will tie up with Western companies in semiconductors, computers, and telecom.
- Hyundai will invest $4 billion by 2000 in autos, telecom, and semiconductors.
- Daewoo will pursue autos and electronics. Plans to set up large electronic plants in Poland, Brazil, and Vietnam; auto parts plants in China; auto-assembly plants in Romania and Uzbekistan.
- LG Electronics will increase its share of overseas production by setting up plants in emerging countries; acquire foreign technology and companies.

OWNERSHIP AND CONTROL

- Samsung, Hyundai, and LG are gradually reducing founding family ownership by making more companies public.
- Daewoo is already largely in hands of professional managers.

DATA BUSINESS WEEK

stan, Daewoo's $800 million automotive plant will begin production in late 1995. In Romania, it took over a state-owned auto company for $250 million.

To what extent Daewoo or other *chaebol* succeed overseas will depend on their ability to manage much more complex global operations. That's why changes in management back home are important. Daewoo's Kim, for example, recently distanced himself from the day-to-day activities of all companies except Daewoo Motors. He also disbanded the group's executive council, which used to make decisions on such crucial issues as cross-holdings, cross-guarantees, and cross-subsidization, the key techniques the *chaebol* use to hold themselves together. Aside from appeasing the government, top Daewoo executives hope greater management autonomy will help their companies make better, quicker decisions in hundreds of places around the world.

Hyundai may be going a step further. This $63 billion group has long been held together by the grip of founder Chung Ju-Yung. But partly because of his failed bid for Korea's presidency, he is gradually easing out of his day-to-day activities at Hyundai.

That is encouraging his sons and younger brother to carve out their own empires: Chung's eldest son, Mong-Koo, controls five Hyundai companies; his fifth son, Mong-Hun, runs three, including Hyundai Electronics Industries Co.; his brother, Chung Se-Yung, is in the driver's seat at Hyundai Motor Co.

SETTING THE STAGE. Under a restructuring announced in late January, the group will be divided into six major-business units, each headed by a professional manager. "All these changes are for real and will be implemented as soon as possible," says Chung Se-Yung. Analysts say that the changes are intended to prepare the group for a breakup once "Big Chung" passes from the scene.

All these corporate moves are taking place against the backdrop of a concerted drive by President Kim Young Sam to change the ownership structure of the *chaebol*. Responding to the bold presidential challenge from Big Chung in 1991, Kim clamped sanctions on Hyundai, denying its companies access to low-interest loans from government-backed banks and refusing permission either to float shares in Korea or raise funds overseas.

But the campaign has been carefully calibrated to avoid throwing Hyundai and the other big groups into chaos. They are too important to the economy. The top 10 *chaebol*, for example, account for about a quarter of Korea's gross national product. Acting through a maze of cross-holdings, the founding families own about 9.7% of the groups' total capital—while they control more than 40%. The government doesn't want to drive the families out. "But we can make sure that the *chaebol* founders or owners do not act to expand their business horizontally and indiscriminately use corporate resources for personal use," says Han Duk-Soo, assistant minister in the Trade Promotion & Industry Ministry.

NEW GENERATION: KOO BON-MOO TAKES LG'S HELM

NO PAIN, NO GAIN "The families are going to go through this whole process screaming and kicking," says one investor

So the government is attempting to lower the ownership ratio of each controlling family. *Chaebol* units in which the founding family's direct or indirect holding is less than 8% are free to raise funds or pursue new businesses with governmental approval. Others aren't. To hack away at the web of cross-relationships, Seoul has banned a *chaebol* company from investing more than 40% of its equity capital in other companies in the same group. Failure to respect that ratio results in sanctions, including a fine. The government plans to cut the ratio to 25% this year and even lower in following years. Reducing the level of financial dealings among *chaebol* units will force them to abandon failing lines of business and zero in on those with the best prospects—or so the government hopes.

Korean investors are divided over whether Kim Young Sam's effort to transform the *chaebol* will be as successful as he hopes. Skeptics point to Samsung's decision to enter the automotive business as a clear case of a big group charging into a new business where it lacks experience.

LOST EDGE. But the majority view seems to be that fundamental change is coming to the *chaebol*. "This time, it could be serious and more effective than before," says John J. Lee, lead portfolio manager of the $600 million, New York-based Korea Fund. "Korean industry as a whole has to change to adapt to the new environment. They aren't labor-intensive any more. They have to be more efficient."

There's no question that the top South Korean companies are gradually absorbing more efficient, Western-style analytical tools. Some experts think the groups' international drive and their need for outside capital ultimately will prove decisive. "The families are going to go through this whole process screaming and kicking, but what's going to drive the transition is the same as with the American or Japanese companies that were family-controlled," says Joseph J. Kim, New York-based president of Peregrine Capital (USA).

He predicts the Korean *chaebol* won't completely break apart but rather will develop more subtle cross-dealings much as the Japanese *keiretsu* have. Others argue that the Korean corporate model will be a hybrid of U.S. and Japanese practices. But whatever path they choose, Korea has little choice but to keep the pressure on the *chaebol* to remake themselves.

By Laxmi Nakarmi in Seoul

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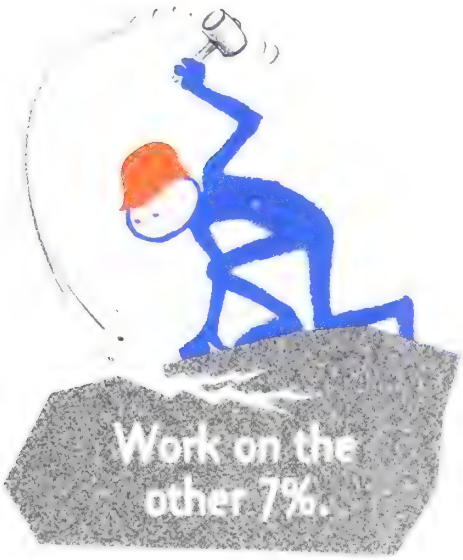

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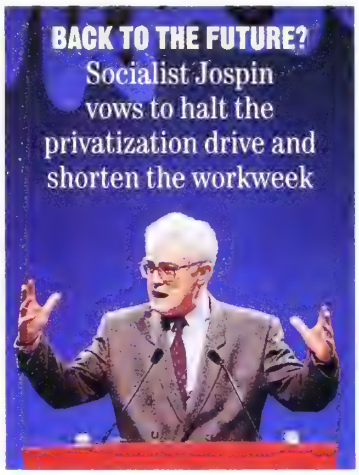
A HORSE RACE IN FRANCE HAS THE MARKETS IN A LATHER

Until now, France's presidential election campaign has been a tedious affair, with conservative Prime Minister Edouard Balladur easily outdistancing all his rivals. But suddenly, French politics are splintering into their more normal chaotic state. A telephone-tapping scandal involving Balladur's Interior Minister Charles Pasqua has sent the Prime Minister's strong ratings plunging. Now, the two-round election of Apr. 23 and May 7 is a horse race. Polls show Balladur running neck-and-neck or even behind his main opponents, Socialist candidate Lionel Jospin and neo-Gaullist leader Jacques Chirac.

As the candidates scramble for votes, their heated campaign rhetoric will bring many of the tensions in French society to the surface. Balladur, the probusiness centrist, stands for a France committed to a strong franc, tighter links with Germany, and European solidarity. Jospin embraces the old socialist visions of a protective state and a heavily regulated economy. Chirac will be jumping on a platform that puts French interests first and such Europolicy matters as a single currency second.



SCARED BY CHIRAC. The uncertainty brought about by this free-for-all is rattling the markets, which have pushed the franc down to record lows against the mark. Investors are noting nervously that Balladur, despite his free-market views and fiscal conservatism, has so far been unwilling to cut the deficit, which is stuck at 5.7% of gross domestic product. Fixing the deficit would force a crash in the French social safety net that any politician would dread making, especially with unemployment at 12.3%.

The market is hoping that Balladur, if victorious, would show more resolve as President and make the biggest effort to cut the deficit. Chirac is a scarier alternative. Balladur claimed on Mar. 1 that Chirac, who is now on his third presidential bid, would spend too freely and destroy the franc. Those are strong words for the mild-mannered Balladur, but the markets fear he may be right. If elected, Chirac could decide to cement his popularity by devaluing the franc, thus engineering a scenario to boost exports and cut interest rates. In bondholders' eyes, such a policy would do serious harm to the low-inflation image of France's economy. And it would weaken French plans to stay on an equal monetary footing with Germany. If Chirac emerges as the favorite after the runoff election in April, the pressure on the franc would rise.

PHONE-TAPPING FRACAS. Meanwhile, Jospin, a former Education Minister with a squeaky-clean image in a scandal-plagued nation, seems a throwback to discredited Socialist policies. He vows to halt France's march toward privatization, begun by Chirac as Prime Minister in 1986-88 and continued by Balladur when conservatives retook parliament in 1993. Jospin also wants a shorter workweek and higher taxes on investment income. His election would be a setback for France's efforts to build industrial competitiveness.

Jospin could only win in a reprise of the 1988 presidential race, when Chirac and his rightist rivals helped reelect François Mitterrand by tearing each other to shreds. It's Chirac who's fanning the phone-tapping sparks against Pasqua, who was purportedly trying to block a judicial probe into a political financing scandal that could hurt him and Balladur. Pasqua, a law-and-order, anti-immigration rightist, has lost his lead to become Balladur's Prime Minister as a result. Before it's over, the race to run France for the next seven years may hold a lot more surprises. And international investors will be nervously following every turn.

By Stewart Toy in Paris

GLOBAL WRAPUP

ISRAEL PRIVATIZES ...

The Israeli government is on a new rush to boost investment in its economy—with some success. It has sold $630 million in state assets in the first two months of 1995. In one of the biggest deals, the Shikun U'Pituah construction company was sold for $280 million to a group of investors that included Canada's Charles Bronfman. Stakes in Israel Chemicals, Bezek Telecommunications, ZIM Israel Navigation, and El Al, the Israeli airline, are next on the block. The government also plans to offer stock options in state-owned companies worth $200 each to every Israeli citizen registered to vote. Israelis can use the options to buy shares in state-owned companies or cash them in. The government hopes its efforts will lead to $1.5 billion in state asset sales in 1995—and lift the drooping Tel Aviv Stock Exchange.

... AND SO DOES ITALY

▶ Despite Italy's political chaos, one of its biggest industrial privatizations may soon take place. On Mar. 3, a consortium of four Italian banks, led by powerful merchant bank Mediobanca, offered to purchase the government's $10 billion majority stake in telecommunications giant STET. In a letter to state holding company IRI, which controls 60% of STET, the consortium offered to pay 70% of the total value of IRI's shares and float a part of those shares in a public tender offer. Prime Minister Lamberto Dini says that he expects STET to be privatized before the end of the summer.

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GODARD AND DORMANN: *The big draw is MMD's sales team*

STRATEGIES

A $7 BILLION PASSPORT?

Why Hoechst needs Marion Merrell Dow

In his bid to transform German chemical maker Hoechst into a global player, CEO Jürgen Dormann knows that a personal touch sometimes helps. In China last December, the lanky 55-year-old hosted an elaborate party for an unhappy minister stinging from an earlier Hoechst snub—and walked away with millions in unexpected deals.

But Dormann also knows how to play hardball. On Feb 28, after months of on-again, off-again negotiations, he offered Dow Chemical Co. $7.2 billion for Marion Merrell Dow Inc., its struggling drug unit. That's well below the $7.7 billion Dow paid for MMD in 1989. Although Hoechst desperately wants MMD, Dormann is betting that Dow is even more anxious to unload it.

GROWTH FACTOR. Dormann has plenty to lose if Dow rejects the deal. Since taking over as chairman in early 1994, the longtime Hoechst executive has launched an aggressive remake of the sluggish giant—and MMD is the centerpiece of his strategy to expand in the high-margin drug business. Although skeptics say it could be years before a deal for the poorly performing MMD pays off, Dormann appears to have little choice. Today, drugs bring roughly 25% of Hoechst's $35.5 billion sales—but almost half its estimated $1.82 billion operating income. Yet with less than 1% of the $57 billion American market, the world's largest, Hoechst gets a paltry 6.3% of its drug sales in the U.S. (charts, page 91). Dormann knows Hoechst cannot be a global player without a better position. "Our answer to this challenge is to fill the gap in the U.S.," Dormann says. Both Dow and MMD declined to comment.

Hoechst certainly needs some help. Though it is Europe's largest drugmaker, it has slipped from fourth to seventh worldwide. It has developed few strong new drugs in recent years, while high labor costs, heavy bureaucracy, and European recession have hit earnings. At 10%, it has one of the worst operating margins of the top 20 drugmakers. "Hoechst is a bit of a stumbling giant," says Barrie James, CEO of Basel-based Pharma Strategy Consulting.

> The U.S. is the world's largest drug market, and Hoechst has a puny 1% of it

But is MMD the solution to what ails Hoechst? A deal would vault it to third place globally, with about $9.3 billion in sales, behind the pending merger of Britain's Glaxo and Wellcome, and U.S. giant Merck. But although MMD's sales rose 9% in 1994, to $3.1 billion, net income slipped 11%, to $438 million. The cause: While MMD had a string of hits in the 1980s—including hypertension drug Cardizem and antihistamine Seldane—they've gone off-patent and are rapidly losing share. And MMD appears to have few promising new products coming. Dow, disappointed with MMD's returns and lacking any synergy, has been trying to sell for a year. But for Hoechst, a play for Marion is "more of desperation than a carefully calculated strategic move," argues Arvind H. Desai, an analyst with pharmaceutical investment research firm Mehta & Isal

Dormann and Jean-Pierre Godard, head of Hoechst's pharmaceutical division, dispute that they're buying a laggard. "We see more in the Marion pipeline than most analysts," says Dormann. Godard claims MMD's Cincinnati research facility has promising work under way in respiratory-tract diseases; success there would add to Hoechst's global portfolio. And although Hoechst does research on Alzheimer's at its small U.S. lab, it lacks critical mass. Combining that work with MMD research into other central nervous system diseases would benefit both, Godard says.

That payoff would be years in coming—if it ever arrives. In the meantime, Dormann is scrambling to position Hoechst as one of a handful of high-volume drugmakers powerful enough to deal directly with health-maintenance organizations and hospitals in the managed-care era. To do so, Hoechst needs a top-notch sales force—and that's where MMD comes in today. Despite recent results, industry observers say MMD has a strong sales network with tight ties to powerful HMOs. What it lacks are new drugs to market—and the

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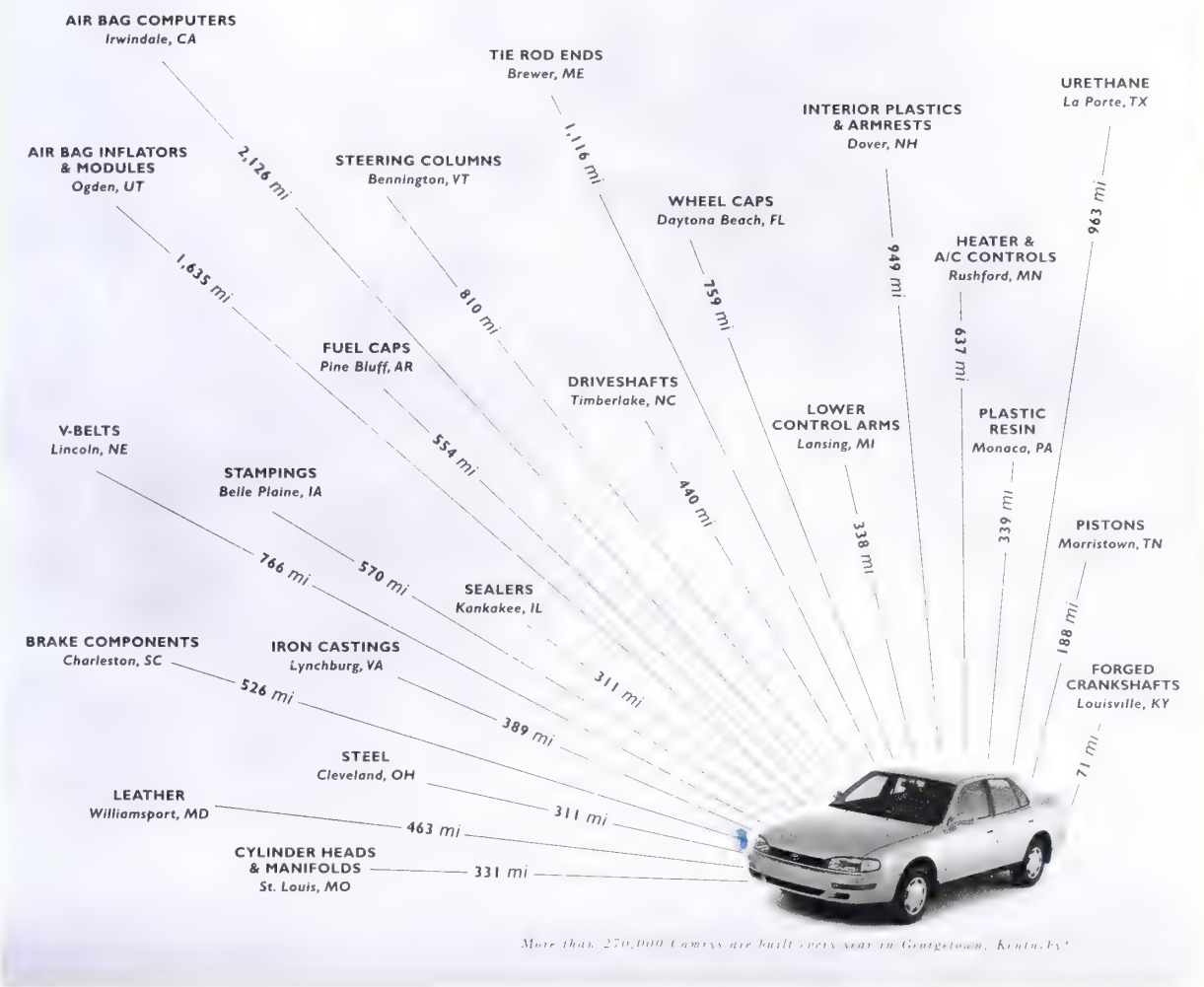

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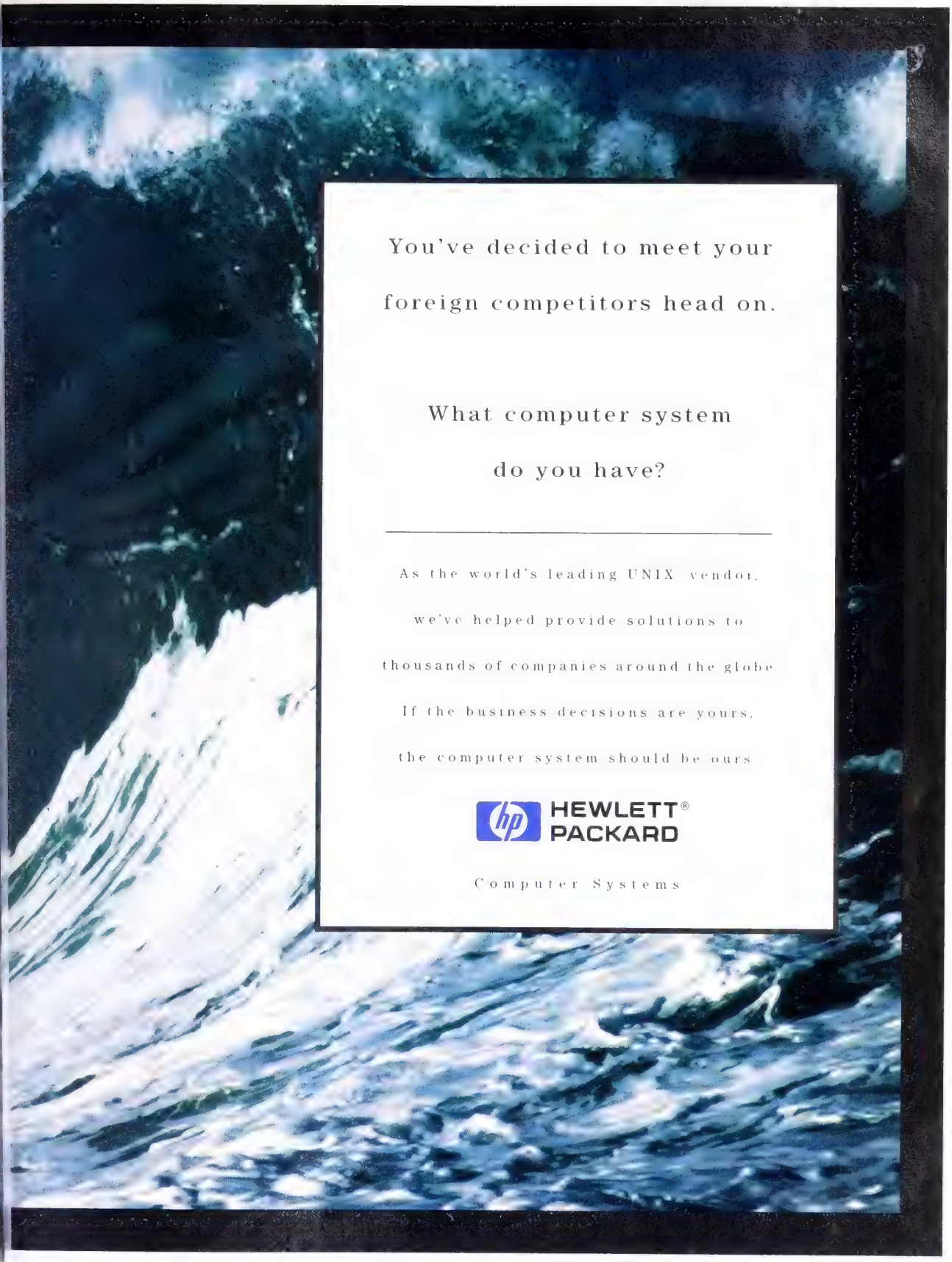
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means it would function as a vehicle for Hoechst to sell its drugs in the U.S.

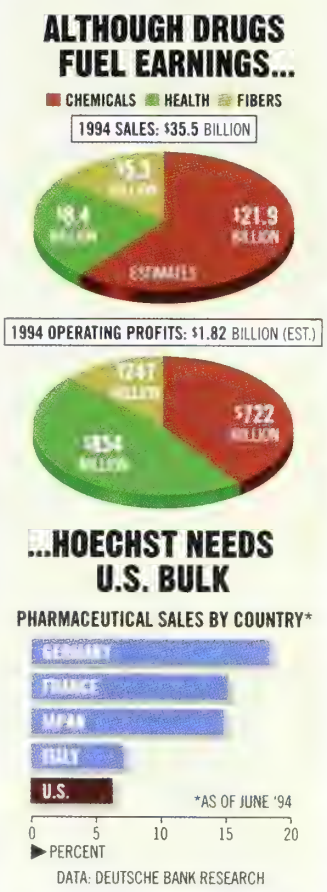
With its tiny sales arm, Hoechst's hit European drugs have floundered in the U.S. Its best-selling Claforan antibiotic, for example, sells roughly $500 million worldwide but peanuts in the U.S. "All of Hoechst's products could be much stronger in the U.S., and sales support from MMD virtually assures that they will be," says Neil Sweig, a Ladenburg Thalmann & Co analyst.

Dormann is also speeding efforts to revamp R&D. Integrating Hoechst's independent German and French operations, for example, should cut $345 million in costs and trim drug development time 30% by 1997. That should help end Hoechst's own recent dry spell. Petra Zamagna, an analyst with Deutsche Bank Research in Frankfurt, says Hoechst should release new drugs for dementia, Alzheimer's, heart disease, rheumatoid arthritis, and schizophrenia by 1997. While the U.S. markets for anti-arthritics and heart medicines are crowded, but there is demand for Alzheimer's and schizophrenia treatments. "If Hoechst had big new drugs there, they could be highly successful," says analyst Desai.

But Godard needs managers who can deal with U.S. regulators. In the past, Hoechst has first won European drug approvals, then repeated costly approvals with the Food & Drug Administration. That means it waits years after launching new drugs in Europe to bring them to the U.S.—if at all.

With MMD, Godard says Hoechst expects to slash time and costs by seeking U.S. and European approval concurrently. "In the future, we want to have a common development plan," he says. And industry rivals agree that MMD would fit better under Hoechst than at Dow. Although 58-year-old CEO Fred W. Lyons Jr. may retire if there's a deal, Chief Operating Officer Richard J. Markham, 43, a former Merck executive well versed in managed care, would likely step up. "Markham's young, he's inventive, he's thoughtful," says a top exec at one big drugmaker. "I'm not interested in having another real competitor, but this is a good move for Hoechst."

The bid for MMD is just part of a big shakeup Dormann is pushing through the top-heavy company. Soon after taking over in April, Dormann picked global executives to oversee an aggressive restructuring. Led by the then head of Hoechst Celanese, American Ernest H. Drew—since promoted to Hoechst's Frankfurt management board—they introduced a streamlined structure in January. Business units have been slashed from 120 to 30, and each now operates globally, cutting across national and functional lines.



TRIAD. Dormann has also divided businesses into three categories: high-growth, requiring heavy investment; mid-range, where Hoechst will hold share; and cash cows that can be divested. Dormann plans to sell Hoechst's $1.06 billion cosmetics unit and a small methanol business. Dormann expects the asset sales to calm market fears that he'll issue debt or new stock to pay for MMD. Since rumors of the deal hit last September, Hoechst's stock has fallen 14%, to $218. But with free cash flow of $1.4 billion and billions expected from divestitures, Dormann says new stock is out of the question.

One thing Dormann doesn't plan is to up his offer. It's a sore point for Hoechst, which stumbled badly in its first U.S. drug move. It paid a hefty $546 million for 51% of generic-drug maker Copley Pharmaceuticals Inc. in 1993. Copley's value has since slid due to lawsuits claiming that tainted batches of its Albuterol asthma drug have led to deaths. Despite the problems, Dormann remains convinced that Hoechst must up its U.S presence. "We're a little bit late, but not too late," he says. With due diligence now under way and the two sides hammering out the divvying up of jobs, analysts expect the deal to go through. If Dow does say yes, Dormann will find out if his timing is better this time.

By Karen Lowry Miller in Frankfurt and Joseph Weber in Philadelphia

ALBERTO MENA/BW

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TORT REFORM

CLEARING A RUNWAY FOR PLANEMAKERS

North Dakota's rush to limit liability is about jobs

North Dakota Governor Edward T. Schafer was encountering a lot of turbulence in the air. On a recent flight across the vast rural state, his pilot, Roger Johnson, was haranguing him about the skyrocketing cost of flying, due largely to liability insurance. "He's a maniac about this," says Schafer, who flies around the state often.

Naturally, Schafer, a Republican, was interested when a group of academics and legislators came up with a scheme to attract airplane manufacturers to the state and mollify his pilot at the same time. But what really excited him was the bait. Instead of offering the typical package of tax breaks and cheap electricity, the North Dakotans proposed luring manufacturers with liability relief. Last month, North Dakota's House passed bills to limit aircraft makers' liability. Now, with approval expected from the Senate, the state is on the brink of enacting some of the most creative tort legislation anywhere. "We're out in front on this one," says Schafer.

Hurtling toward tort reform, North Dakota finds itself in step with the rest of the country. Pushed by business and fueled by public outrage over mega-awards for sprained knees and spilled coffee, tort reform is heating up as never before. In Washington, the House is expected to pass tough anti-litigation measures in mid-March as part of the Republicans' Contract With America. This will include limits on punitive damages and on awards for pain and suffering. But the battle will be pitched in the Senate, where strong opposition from the White House is expected.

The states aren't waiting for Washington. More than 70 tort-reform bills are pending in at least 31 states, from New Jersey to Texas. But nearly all of the bills would merely shift costs in the legal battles from would-be defendants to plaintiffs, while doing little to avoid disputes. Indeed, the battle over tort reform promises to be nearly as nasty as a suit itself, dividing Americans into winners and losers.

The North Dakotans propose something new: an agreement before the accident, rather than a fight after it. The root of the problem, they maintain, is the ascendancy of torts over contract law. In the small-airplane market, for example, the buyer and the seller rarely hammer out their financial risks in a contract. Instead, the manufacturer, fearing suits, buys enormous liability insurance, then charges the buyer for it indirectly by marking up the price of the plane, often doubling it. These high prices, manufacturers say, have driven 20 of 26 small-aircraft manufacturers from the business in the past 20 years.

OUT-OF-STATE TEST. The North Dakota bill, with its "aftermarket risk contract," attempts to bypass torts. Essentially, the state would force buyers and aircraft manufacturers to sign an agreement stating how much liability risk each side will bear. The buyer takes out insurance, similar to an auto policy, and relieves the manufacturer of much of its liability—though the manufacturer remains on the hook for defects or fraud and could face suits from injured third parties. Proponents say self-insuring customers could reduce the liability tab for their planes by two-thirds to three-quarters, lowering the price of a $125,000 plane to $75,000.

The crucial question is whether North Dakota's trailblazing contracts would hold up in other states. The North Dakotans maintain that contracts, from marriage licenses to auto insurance, lose nothing when they cross state lines. But plaintiffs are certain to challenge North Dakota contracts in out-of-state courts. In fact, the North Dakotans don't expect many of the small manufacturers to set up shop in the state until the contracts pass this legal test.

FEAR OF FLYING

Because of potential lawsuits, Fisher makes kits instead of assembled planes

A MAGNET FOR INDUSTRY

To attract light-aircraft makers, North Dakota legislators are pushing tort reform that:

OFFERS manufacturers a large measure of protection from liability suits.

IMPOSES a 10-year statute of limitations. Current federal law is 18 years.

REQUIRES manufacturers and customers to enter a contractual agreement, which, among other things, makes the purchase of liability insurance mandatory.

But if the law does hold up, North)akota will certainly have targeted an ndustry hungry for legal relief. Shifting narkets and soaring legal costs have virually wiped U. S. companies out of the ingle-piston plane market. Domestic prouction of the light planes has plunged rom 17,800 to 400 over the past two ecades. Industry leader Cessna Aircraft 'o. dropped its light-aircraft line altoether, shifting production to faster and ricier corporate jets. Piper Aircraft 'orp. was forced into bankruptcy large- because of liability claims. "The lightircraft industry is sucking air out of a ad hose," says North Dakota Aeronauces Commissioner Gary R. Ness.

The liability costs have left niches here there once was an industry. Kit iakers, for example, which skirt liability y building 49% of a plane, are on the se. Fisher Flying Products, a manucturer 130 miles southeast of Bismarck, iilds 150 airplane kits a year for cusmers as far-flung as South Korea. CEO arlene Jackson-Hanson says she would cpand Fisher under North Dakota's oposed law. And Alan L. Klapmeier, esident of Cirrus Design Corp. in Duth, Minn., says the bill would make it nuch more likely" that Cirrus, now iilding planes in Israel, would shift ork to North Dakota.

OMEGROWN TALENT. Bismarck's tort rermers didn't choose the aviation indusy out of the blue. The University of orth Dakota at Grand Forks is home to e largest civilian flight-training school the U. S., one of the country's biggest stomers for light aircraft. The state so boasts the country's best high school aduation rate. That makes for a highality workforce—but only if there are os. Proponents say the legislation could d to 2,000 to 5,000 new jobs—a veritae boom in a state of 650,000.

The promise of economic goodies sn't won over everyone. Consumer adcates, plaintiff lawyers, and industry tchdogs, citing consumer rights, will ely challenge the law in court. Some instry insiders are also skeptical. Piper rcraft CEO Charles M. Suma suggests it plaintiffs could simply hunt down -of-state suppliers to the North Dakoindustry as a means to bring a case ewhere. "What about the guy who lt the avionics in Wichita?" he asks.

That hypothetical guy and others like n will surely turn up in early lawsuits er the North Dakota bill passes. But if law holds up and small manufacturbegin scouting for sites in the Badds, reformers in Washington and elsewere are sure to read North Dakota's v contracts very carefully.

By Stephen Baker in Bismarck, N. D., h Linda Himelstein in New York and therine Yang in Washington

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PERSONAL COMPUTERS

AT COMPAQ, A DESKTOP CRYSTAL BALL

But will its forecasting software really make a cutthroat business less risky?

On Mar. 3, Michael Parides sat in his office nervously scanning the spreadsheet running on his personal computer. Hewlett-Packard Co. had just slashed prices 22%—stepping up a campaign to grab more of the corporate PC market. Months earlier, Parides had persuaded his bosses at Compaq Computer Corp. to back a radical plan: Use complex simulation software to manage product introductions for the world's biggest PC maker. Parides' program was designed to model trends in customer demand, pricing, and even dealer inventories. As the screen filled, he relaxed. The program had anticipated HP's pricing to within a few dollars. "It all proved out," Parides quickly relayed to his boss.

For Parides, director of business operations at Compaq's Desktop Div., it was one more hurdle met and cleared. After eight grueling months battling skeptical colleagues and fatigue, his team and its software are playing a critical role in managing the nanosecond pace of new-product introductions—arguably the company's biggest challenge. A miscue can mean disaster. A model that's late, lacks the right features, or has the wrong price quickly turns into piles of unusable components or slow-moving finished goods. Just ask IBM, which misjudged the market last year and saw a 6% plunge in PC sales—and a $1 billion loss. Analysts say Compaq passed up $50 million in sales by underrating demand for home PCs last fall.

BIG TEST. Now, the company is determined not to repeat such mistakes. "What's going to count the most, as far as remaining competitive and profitable, is how you manage your business," says Kevin L. Bohren, marketing vice-president at the Desktop Div. "It used to be every new product had six months of uniqueness. Now, it's a long weekend."

Parides' system is now facing its biggest test. Starting Mar. 8 and continuing in April, Compaq will launch a series of business and consumer PCs to replace models that now account for

PARIDES CREATED A "SIMCITY" OF THE PC INDUSTRY

COMPAQ'S NEW SCIENTIFIC METHOD

CUSTOMERS Conducts focus groups to gauge interest in and price sensitivity to new features

DEALERS Polls resellers on inventory levels and available cash to gauge the timing of new-model introductions

LOGISTICS Schedules key purchases and production processes only after development hurdles are met

SUPPLIERS Tracks suppliers' production and, with them, develops alternative production plans in the event forecasts are wrong

'5% of its $11 billion in revenues. These nachines—51 new business models for he North American market alone—are xpected to help swell Compaq shipnents to 6 million machines this year, p from 4.8 million in 1994.

Compaq has long used computer modling—to weigh the impact of design ecisions on component purchases, for xample. But Parides, a buttoned-down ormer McKinsey & Co. consultant, has reated a kind of SimCity for the entire C business. Essentially a giant spreadneet, it includes far more detail than ther simulations, Compaq says. As a esult, it can simulate conditions such as omponent price changes, fluctuating deand for a given feature or price, and e impact of rival models. By modeling upplier and competitor behavior, the ystem lets managers consider the risk certain actions before taking them.

How good is the model? Insiders say played a decisive role in convincing p management on the most critical ecision of 1994. Starting last summer, mpetitors and pundits ere roundly criticizing e Houston-based PC aker for its slow switch machines using Intel orp.'s new Pentium ip. While rivals such as ell Computer Corp. and ateway 2000 Inc. were ing a booming business Pentiums, Compaq as amassing a huge intory of PCs based on e older 486 design. mpaq stuck to its plan, cause the model said most corporate yers wouldn't want Pentiums until rly 1995. The gamble proved success: Fourth-quarter earnings rose 61%.

The new desktop PCs that Compaq lled out on Mar. 8 are the first models signed from the ground up using hat if" scenarios created by Parides. e machines—ranging from $2,300 to ,500—include competitive new feares such as software that tells netrk managers what's inside the PC.

One thing Parides didn't forecast was w difficult it would be to create the tware. Early on, he teamed up with chael J. Sheehan, a lanky analyst icked from Compaq's operations plang group. The first hurdle was getting peration from department heads who l never worked together. The second s getting the right data. Compaq rketers had never estimated demand sticity for PCs, for example. When rides' group met with other departnts last June, their requests were so usual, they got a skeptical reception. arly on, there were a lot of question rks—was this the right approach? The right individuals?" recalls Bohren.

As the weeks wore on, the team struggled to get the needed data. A corporate reengineering program run by McKinsey was beginning to produce some of the information—but it was only starting. Morale sank in July when the team realized it had to scrap its first model and build a more detailed one. It was Parides' partner Sheehan who kept spirits high. After taking his kids to see Walt Disney Co.'s *The Lion King*, he took to belting out the film's *Hakuna Matata*—"no worries"—song whenever the team hit a snag. "No worries" became the group's motto.

TOUGH CALL. Then Parides dug in. He canceled a late-July vacation to run new scenarios and tweak the model to show the financial risks of moving up the announcement of Pentium PCs. The findings: Shifting too quickly to Pentium-based models would wreak havoc on pricing on Compaq's many 486-based units. It would also mean paying higher prices for new components than if it waited (Intel has since slashed Pentium prices).

> "We bet against everything the company believed"

For Compaq, which had often triumphed by bringing new technology to market as soon as possible, it was a tough call. "We bet against everything the company believed," says Parides. He took the case to Desktop Div. Senior Vice-President John T. Rose. "A bad decision and it's hundreds of millions" of dollars lost, Parides warned.

In mid-August, Rose got the group a hearing before the corporate financial group. By then, Compaq sales managers were lobbying for an accelerated switch to Pentiums. "We got a lot of 'you don't understand, we've seen this before,'" recalls Parides. He pushed ahead, however, presenting to financial executives, then to the company's top strategists.

On Oct. 28, Parides and Sheehan found themselves before CEO Eckhard Pfeiffer. Their pitch: The company could boost profits by $50 million in the March, 1995, quarter by not speeding up the release of the new Pentium machines. Pfeiffer, who listened intently, gave the pair all the assurance they needed. "It's about time we're doing these things," he said.

Within 12 months, all Compaq computers will be designed with the help of Parides' new simulation tool. If it works—and confirmation may come when results for this quarter are released—*Hakuna Matata* could be Compaq's theme song.

By Gary McWilliams in Houston

Whaddya Say To A Guy Who's Had The Same Job For 50 Years, Has Never Called In Sick Or Showed Up Late, Never Taken A Vacation Or A Holiday, Never Asked For A Raise Or Griped About His Bonus And, Believe It Or Not, Has No Plans For Retirement?

Thanks.

Remember - only you can prevent forest fires.

COMMENTARY

By Mark Lewyn

HOW TO VAULT THE FINAL HURDLE TO TELECOM REFORM

Back in January, 1985, Metro-Link Telecom Inc. started offering phone service between Houston and nearby Galveston, Tex., by leasing lines from SBC Communications Inc., the regional Bell operating company. After two years, the Texas City upstart had wrested 200 big corporate customers from SBC. Then the Baby Bell launched a counterattack. According to an antitrust suit that Metro-Link filed, SBC tried to squash its smaller rival by removing Metro-Link numbers from its phone directories and refusing to assign it any new numbers. SBC officials deny they tried to kill off the competition, but in July, 1993, Metro-Link was awarded $5.7 million in damages, which SBC is appealing. "They will stop at nothing to stop competition," says Daniel A. Jones, a Metro-Link co-owner.

Metro-Link's experience points up the thorniest issue facing Congress as it attempts to rewrite the laws that regulate the sprawling U. S. telecommunications industry: how to dismantle the local-phone monopolies run by the Baby Bells, GTE Corp., and 1,300 smaller players across the nation—and quickly introduce the free-for-all in local calling that has benefited long-distance consumers for a decade.

BEDEVILED. Granted, virtually all interested parties are in agreement on the endpoint of new legislation. In return for freedom to enter new businesses such as long distance and cable TV, local-phone companies must open their markets to competition. The devil is in the transition rules that the different parties want put in place to ensure that the local phone giants do indeed open their markets.

Republican lawmakers have proposed a Bell-friendly "date-certain" measure. It would say, in effect, that as of a certain date the Baby Bells can enter cable, long distance, or any other business, whether or not competition exists in their local operating regions. Democrats, more closely allied with long-distance carriers, favor some form of test to determine whether a Baby Bell's local market is competitive before it can jump into long distance.

There are big drawbacks to both approaches. Senate Republicans, led by Larry Pressler of South Dakota, are pushing a proposal to introduce legislation that lets the Bells into long distance after three years. The GOP figures that would give cable companies and long-distance carriers enough time to penetrate local calling. Even before that, the Bells could enter the cable-TV market to help break up that monopoly.

The trouble is, the Baby Bells would still have every incentive to continue blocking or delaying competition. While the Republican measure includes penalties of up to $500 million for delaying tactics, experts say the billions of dollars in revenues from preserving the local monopolies would more than offset the fines. The date-certain approach is "very poor public policy," says John W. Mayo, an economics professor at the University of Tennessee.

The Democratic alternative—a rerun of last year's Senate bill—would be no better. It calls on the Justice Dept. to decide whether there is a "substantial possibility" that the Bells could impede competition in local markets and requires the Federal Communications Commission to decide whether freeing the Bells would be in the public interest. But this subjective approach confers too much power on regulators. Worse, it could spawn litigation over the definition of "substantial" that might take years to settle, further postponing the benefits of competition.

EQUAL CHANCE. The smartest strategy is contained in a bill to be introduced shortly by Jack Fields (R-Tex.), chairman of the House telecommunications & finance subcommittee. His plan lays out objective criteria for determining whether a market is open. For example, customers must be able to keep their same phone numbers, with no extra digits added, no matter who their local carrier is. Interconnections with the existing network must be offered to new entrants at competitive rates. And local-phone companies must "unbundle" services they sell so that rivals can buy just what they need—leased lines, for instance—and not be made to buy things they don't want. Once state regulators say the competitive "checklist" is complete, the FCC would give the Bells the green light.

This proposal would provide a sound framework for full competition in local-phone service. It doesn't assure that anyone will take on the Bells successfully. But the government can't guarantee how market forces will play out—only that all comers will have an equal chance. Fields is proposing fair rules for the race. It's time to let it begin.

Lewyn covers communications policy from BUSINESS WEEK's Washington bureau.

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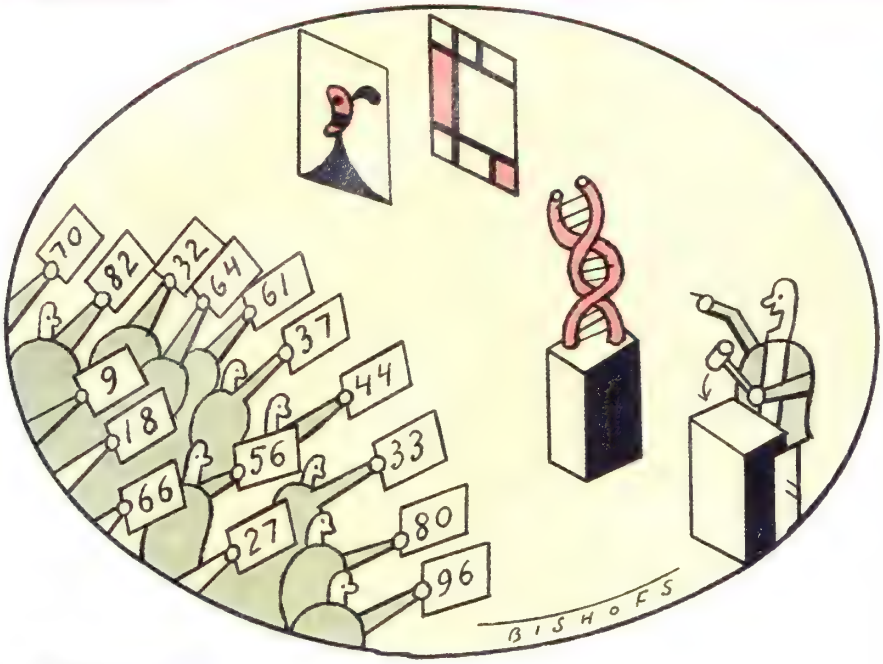


BIOTECHNOLOGY

IS THIS 'FAT GENE' WORTH ITS FAT TAB?

For $20 million, Amgen banks on a weight-loss bonanza

Signing bonuses are usually reserved for sports stars and high-flying chief executives. But the words entered the lexicon of biotechnology on Feb. 28, when Amgen Inc. announced it would pay a $20 million "signing" fee to Rockefeller University to obtain access to a gene that appears to be successful in treating obesity—so far, only in mice. If the Thousand Oaks (Calif.) biotech powerhouse hits certain development milestones with this "OB" gene, Amgen eventually could pay Rockefeller more than $100 million.

As with most signing bonuses, a fair question is: Can such sums be worth it? Certainly the price seems high for a gene that has not yet been proven to be relevant to human obesity. But Amgen's purchase shows how intense the race is—among academic labs, "genomic" startups, and big drugmakers—to stake a claim in genes that cause disease or control the body's response to it. Human Genome Sciences (HGS), Millennium, Myriad, Sequana, and InCyte Pharmaceuticals are among more than a dozen startups that insist controlling disease genes such as OB will be the new currency for drug research and development in the 21st Century.

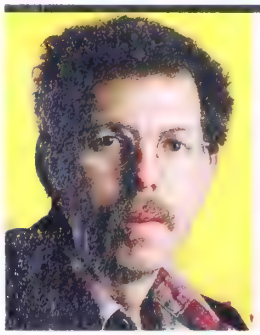
A number of major drugmakers seem to agree: SmithKline Beecham PLC, for instance, has committed $125 million to HGS in Gaithersburg, Md., for equity and first dibs on promising genes. Last March, Hoffmann-La Roche pledged $70 million to Millennium in Cambridge, Mass., to work on genes for diabetes and obesity. Says William A. Haseltine, chairman and CEO of HGS: "I'm pleased to see that Amgen recognizes the intrinsic value of a human gene for the creation of important medical products."

Haseltine has good reason to see it that way: His company has a huge database of genes, or DNA sequences, that he would like to get top dollar for, too. But you can also argue that the battle for OB says little about the intrinsic value of genes. Amgen paid big dollars because it could. And ultimately, a gene is worth whatever a buyer will pay for it. That value can be influenced by negotiating, patent position, competition, strategy, commitment, and many other factors.

NO MINI-MOUSE. Consider that, in recent years, studies have attributed about 70% of obesity to genetic factors. With more than 100 million medically obese people worldwide, it's no wonder that drug companies are interested. For years, Rockefeller scientist Jeffrey Friedman has been zeroing in on a mutant gene in one strain of genetically obese mice. Friedman showed that in normal mice, without the mutation, the healthy gene makes a protein that seems to discourage overeating. He also found what appears to be an equivalent gene in people. If obese people have this mutation, they might be given a genetically engineered version of the protein as an appetite suppressant.

In 1993, Friedman co-founded genomics player Millennium to commercialize some of those findings. Usually, researchers starting companies do so with rights in hand. But a unique setup at Rockefeller and the Howard Hughes Medical Institute, which pays Friedman's salary, required an open bidding process. Rockefeller knew Friedman's work would be published in December 1994. In November, the university began calling and weighing interest among a wide group of companies.

A dozen drugmakers, including Amgen, Eli Lilly, and Bristol-Myers Squibb, according to sources close to the negotiations, were involved in two months of intense bidding. Senior company executives met with high-level university representatives in January and February, massaging proposals. "There was an auction, and many people wanted it." Competition drove the



OF MICE—AND MAYBE MEN

Rockefeller University scientist Jeffrey Friedman is zeroing in on a gene that appears to make obese laboratory animals lose weight

rice up," acknowledges Frank D. Collins, senior director of neuroscience at Amgen. Notes a losing bidder: "This was the hottest property to come out of biotech in years."

But how hot is hot? On one hand, genomics companies may claim that Amgen's big check underscores the value of genes. Not to appear to be aced out, they also note that obesity is a "polygenic" disorder, meaning that a number of genes cause and exacerbate the illness. Like a freeway with many onramps, they all feed the traffic problem. To alleviate it, you close the ramps. But closing just one won't work.

In genomics, different companies are taking out different ramps along the same roads. There's a whole chorus line of chunky ob mice with such embarrassing monikers as Tubby, Fat, and Puff, who are all overweight for different genetic reasons. San Diego's Sequana, for example, is combing the genetics of tubby, explains CEO Kevin J. Kinsella. Tubby is a big eater, but he has metabolic problems, too, which Sequana feels may make his problem more similar to human obesity than Rockefeller's mouse is. Adds Randal W. Scott, the head of research and development at InCyte: "There may be 10 genes that cause obesity and probably 1,000 involved in the overall process." That Amgen would commit such dollars for rights to just the gene in that equation, Scott says, "is mind-boggling."

KEY PRECEDENT. Of course, Amgen has a $700 million cash hoard, and $20 million is a drop in the beaker. Collins says Amgen was determined to get OB because it's cranking up a big effort in obesity and already has 35 people working on the project.

Nobel Laureate Walter Gilbert, co-founder of genomics company Myriad Pharmaceuticals, is among a few industry types worried that the auction precedent that Rockefeller has set could hurt smaller biotech companies. With the biotech industry facing tight capital markets, the OB deal may further swing the advantage to large players, "to the detriment of small companies" that can't afford these bidding wars, he says.

That's an interesting point, especially given Friedman's relationship to Millennium, which could not match the amount Amgen bid for the OB gene. Millennium chief business officer Steven H. Holtzman is keeping a stiff upper lip. "If you miss out on one technology, it's disappointing, but OB is only one of the many genes we're looking into [in obesity]," he says. He maintains that Friedman still has an "exclusive consulting" agreement with Millennium covering obesity.

Amgen's Collins, however, says that he expects to set up his own collaboration with Friedman and that he has been told by Rockefeller that nothing precludes that. Friedman, who will share about $7 million of the up-front fee from Amgen with several colleagues, was out of the country when the OB deal was announced and declined to comment for this story. Roche isn't talking either, although the company says its agreement with Millennium is intact.

The upshot is, according to David J. Luck, Rockefeller University's vice-president for academic affairs: "Amgen purchased a scientific concept." If the protein this gene makes becomes the ultimate, safe, easy-to-take appetite suppressant, it could turn out that Amgen has bought a license to print money. Or it may not work at all—a conclusion that could come in months, or not for a half-dozen years and hundreds of millions in investments. But so far, no one has even determined whether obese people have any more or less of the OB gene protein circulating in their blood than thin people.

Intrinsic value? Oppenheimer & Co. biotech analyst Matthew Geller doesn't buy that, and it's one reason he's not bullish on genomics. "This information is two levels of abstraction from having drugs on the market," he says. "I think it's a little bit of a fad." Stay tuned for another exciting and confusing chapter of *As the Genes Multiply.*

By Joan O'C. Hamilton in San Francisco and Geoffrey Smith in Boston, with Larry Armstrong in Los Angeles and John Carey in Washington

Amgen's Big Gamble

Buying the rights to an obesity gene from Rockefeller University is Amgen's high-stakes bet that genes hold the key to curing a multitude of ills

THE REWARD

Rights to a patent application for a gene that could create diagnostic tests, a gene therapy, and/or a blockbuster drug to treat obesity

THE RISKS

- This gene, in fact, may not affect human obesity
- The gene may be just one of many that control obesity
- It may increase the understanding of obesity but not lead to a treatment
- Until a patent is issued, competitors can exploit knowledge of the gene to develop their own treatments

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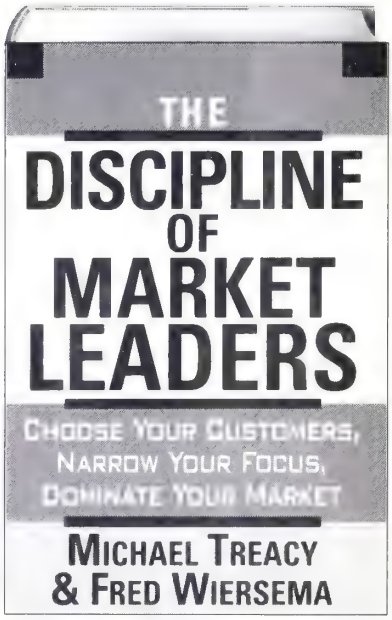

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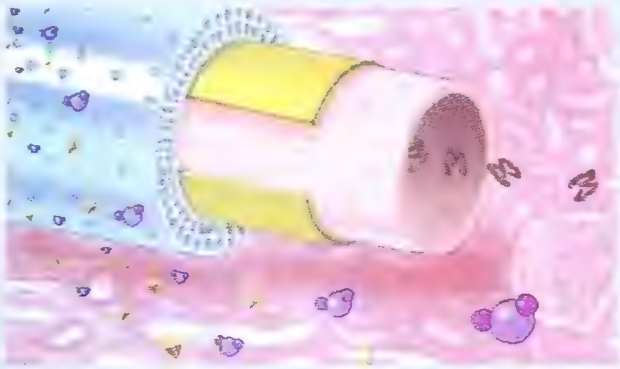
WEEPING OLLUTANTS UNDER HE ALGAE RUG

ANT TO GET RID OF NASTY ollutant spills and water-orne heavy metals? Easy: oss a rug over them. Two ologists at Clark Atlanta niversity have patented a icrobial carpet of blue-een algae, dubbed Microbi- Aquatic Treatment Sys-m, or MATS, which breaks own organic pollutants and so binds heavy metals such uranium and silver.

To build the MATS—which n be woven to any size, de-drated, and stored for fu-re use—biologists Peter illips and Judith Bender x together algae called anobacteria and other mi-obes and laminate them to a mesh of coconut sks. Developed with sup-rt from the Defense and nergy Departments, MATS rformed well in pilot tests the Tennessee Valley Au-ority in Alabama and the leral Bureau of Mines in lorado. Later this month, IX Technologies Inc., nerica's largest operator of nitary landfills, will begin ting MATS in hopes of re-cing the levels of ammo- in liquids leached from a dfill in Louisville.

IN THE WORKS: MAN-MADE KIDNEYS



THE HUMAN KIDNEY EXCELS AT FILTERING TOXINS FROM the blood while reabsorbing vital nutrients to maintain the body's chemical balance. Mechanical dialysis, which lacks the reabsorption mechanism, is a poor surrogate. Even so, some 400,000 Americans with kidney problems resort to dialysis each year—at a cost of about $12 billion.

Toward the end of this decade, predicts David Humes, professor of internal medicine at the University of Michigan, advances in so-called tissue engineering will lead to implantable artificial kidneys that begin to emulate the natural organ. Working with Nephros Therapeutics, a University of Michigan spin-off created to commercialize his ideas, Humes has designed a device with two different chambers to handle filtration and reabsorption. Each chamber is filled with porous, hollow fibers lined with cultured kidney cells (illustration) and cells from blood vessels that prevent coagulation. Insulated from the host patient's immune system by plastic casing, the living cells won't be subject to rejection.

To speed the inventions to patients who need them, Nephros will develop the two components separately. The first product—a reabsorption unit designed as an external aid to conventional dialysis—should be ready for human clinical trials in about two years.

FROM THE DESERT, NONTOXIC LATEX GLOVES

THE USE OF CHEAP LATEX surgical gloves containing large amounts of protein from rubber plants has caused an explosion of allergies among nurses, doctors, and other gloved professionals. Once people become allergic, even high-quality gloves that are nearly free of the proteins can trigger a reaction. In extreme cases, that reaction can lead to anaphylactic shock and even death.

The solution to the problem may come from a desert shrub called guayule, which produces latex in its bark

without allergenic proteins. U.S. Agriculture Dept. scientists have bred new strains of guayule, which can be ground up to produce large amounts of the material. Now, Katrina Cornish, an Agriculture Dept. plant physiologist in Albany, Calif., and her colleague, Deborah J. Siler, believe they can genetically increase the amount of an initiator enzyme in guayule to further boost latex yields. The government is looking for a company to plant the strains and market them. Since the guayule plant can only be harvested every four years, Cornish is hunting for substitutes. She hopes to genetically alter annuals such as goldenrod and milkweed so they, too, produce latex in commercially worthwhile quantities.

ULTRATINY CHIPS FROM ULTRAVIOLET LIGHT

PTICAL LITHOGRAPHY—sing light to "print" cir-uits on computer chips—is charmed technology. Re-orts of its pending demise op up so often that they ave acquired a "cry wolf" tatus in chip circles. The ilemma: As light beams re focused to print smaller nd smaller circuit lines, ney begin to bump up gainst physical limitations. When light-based printing quipment can go no fur-ner, the chip industry will have to chuck decades of accumulated technology.

Until now, those limits were pegged at about 0.18 micron—small enough to create 1-gigabit memory chips expected to come out around 2002, but probably not good enough for 4-gigabit chips in 2005.

However, the silicon wizards may have again extended light's lease on life. In late February, Sandia National Laboratories in Livermore, Calif., unveiled an experimental system that uses so-called extreme ultraviolet light. Researchers believe it will let them print circuit lines a mere 0.1 micron wide. That's one-thousandth the width of a human hair and one-fifth the size of the lines on today's best chips. Developed by Sandia and AT&T Bell Laboratories, the technique could handle 16- and perhaps even 64-gigabit chips. The latter would have enough space to store 27 sets of the *Encyclopaedia Britannica*.

(LEFT TO RIGHT) ILLUSTRATIONS BY DANIEL S. CUTTER/AMI, LINDA BLECK

SECURITIES FIRMS

WHERE DOES GOLDMAN SACHS GO FROM HERE?

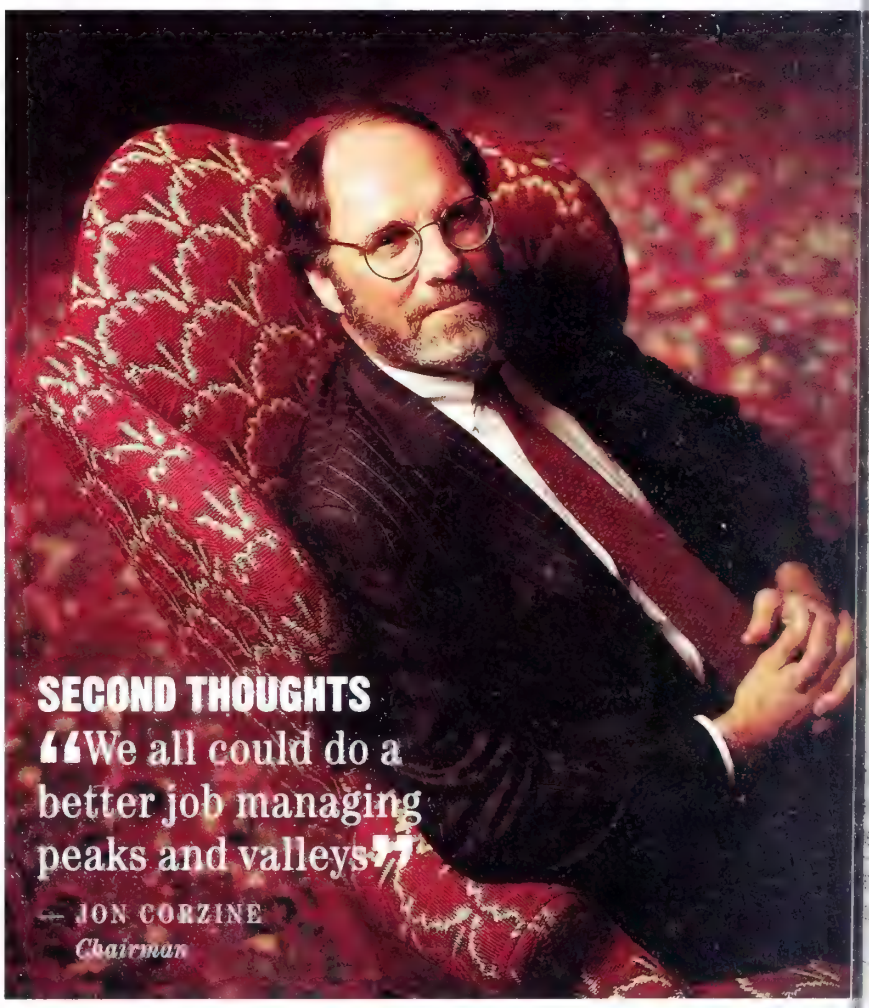
After trading losses, layoffs, and reverses abroad, it's ripe for a major reengineering

John L. Weinberg, the semiretired senior chairman of Goldman, Sachs & Co., had planned to take a day or so off around Thanksgiving. But he changed plans when he learned the turmoil that had engulfed the firm two months earlier with the sudden resignation of his successor, Chairman Stephen Friedman, had reached crisis proportions.

In the wake of huge trading losses and the failure of a costly, poorly executed overseas expansion strategy, Goldman was firing employees by the busload, and many top partners were unexpectedly taking early retirement. The firm's vaunted collegial culture, nurtured by Weinberg and his father Sidney before him, was fracturing. Work in some areas of the firm's lower Manhattan headquarters nearly halted as traumatized employees who had just been dismissed were escorted to the door, a scene repeated at other Goldman offices in the U. S., Hong Kong, London, and elsewhere.

A heavyset, grandfatherly figure who could pass for an old-fashioned New York cabdriver, Weinberg was the embodiment of the old, family-oriented Goldman culture. He felt furious and heartsick, say several current and former employees: furious at what he felt was Friedman's unconscionable betrayal, and heartsick that by aggressively pursuing trading for its own account, the quintessential white-shoe Wall Street firm had strayed from its original mission of putting client interests before its own. That shift of emphasis was behind many of the firm's troubles. "John was so mad he couldn't see straight," says a former colleague who, like most current and former Goldman partners interviewed for this story, declined to be quoted on the record.

SHARED WOES. So Weinberg, who refused to comment, drove from his home in Greenwich, Conn., to 85 Broad St., where he walked the halls in an attempt to calm people down and to remind them that Goldman's focus should be mainly on its clients. By all accounts, Weinberg's appearance had a palliative effect. But it has not cured what ails Goldman.



SECOND THOUGHTS
"We all could do a better job managing peaks and valleys."
— JON CORZINE
Chairman

To a large extent, Goldman's woes are shared by nearly every other Wall Street firm. Like the others, Goldman got clobbered in 1994 by the sharp increase in interest rates, which devastated bond portfolios. Overseas, Goldman suffered huge losses in Japanese warrants and currency trades. Sources at the firm say earnings at Wall Street's last remaining major private partnership plunged to $508 million from the staggering $2.3 billion earned the year before.

Jon S. Corzine, 48, the affable, mild-mannered former fixed-income chief who was appointed chairman upon Friedma retirement in mid-September, blam much of the financial reverses on "a cl sical cyclical downturn." He and othe point out that many parts of its bu ness are quite healthy. It enjoyed a go year in mergers and acquisitions and uity underwriting, including initial pub offerings, maintaining its No. 1 glo rankings in those businesses. Among credits was a $3 billion equity und writing for TeleDanmark, the largest ternational equity offering in history.

Yet when pressed, Corzine admits t

ıany of its recent setbacks indicate much roader managerial problems. He says verything relating to how Goldman is ıanaged—from compensation, planning, roprietary trading, costs, and risk mangement, to the partnership structure itelf—is on the table. Controls are an esecially big concern. "Institutionalizing ıe managing of costs and growth is og to be a permanent mind-set at Goldan Sachs," he says. As many observers e it, Corzine, who seems to enjoy wideread support from partners, plans nothg less than a wholesale reengineering of e firm.

What makes his admissions especially riking is that for years Goldman had ın regarded as the best-managed firm Wall Street—smarter, tougher, and ıer than anyone else. Its family-like ure of teamwork made it one of the st harmonious and agreeable places work, as well as the most profitable, the Street.

Like other firms, Goldman had sufed from occasional snafus. In the ear-970s, the firm was the target of nuous lawsuits charging that it withheld erial information from commercial pa- investors on the financial condition of n Central Corp., which failed in June, 1970. Goldman was ordered to reimburse investors. And in early 1987, the firm was devastated when partner Robert Freeman was charged and later pleaded guilty to trading on insider information.

Its current woes, though, seem more systemic and pervasive: the overly aggressive foreign expansion binge, a bloated cost structure, excessive reliance on risky proprietary trading, and serious internal rifts, the latter exemplified by Weinberg's criticisms of the firm's direction. Says one Goldman officer: "Last year, we could walk on water. Now, we have to swim in it like everyone else."

Especially serious has been the defection of key employees and a shrinking in the depth of Goldman's management. One of the firm's biggest losses is Mark O. Winkelman, regarded as one of Wall Street's preeminent fixed-income traders. And some former partners fear that the departure last fall of Howard A. Silverstein, regarded as perhaps the premier investment banker for the insurance and financial services industry, will have severe repercussions. In recent years, Silverstein is said to have generated more than $100 million in earnings a year for the firm. Charles A. Davis, who cultivated hundreds of corporate clients as head of investment banking services, may also be tough to replace.

The spate of retirements could potentially drain hundreds of millions of dollars from the capital account. While Goldman insists it has more than enough capital, others say that the problem may be less the amount of capital than the growing uncertainty about the amount of capital it will have on hand in the future to support its business.

Many of Goldman's current problems can be traced to the firm's increased emphasis on proprietary trading and principal investments, which, beginning in the 1980s, produced sharp debates within the firm. The issue came to a head under John C. Whitehead, the patrician co-chairman who preferred a client focus. He prevailed over Stephen Friedman and Robert E. Rubin, now Treasury Secretary, when the two co-headed Goldman's fixed-income activities.

When John Weinberg, who succeeded Whitehead and shared his views, retired in 1990, Rubin and Friedman became co-chairmen and moved the firm strongly toward proprietary trading. "They had a different vision," laments one former officer. "They took Goldman away from client relationships as the quintessential agency firm and moved it in the direction of being a global superpower, playing in the high-stakes, high-reward proprietary trading game."

Shortly thereafter, at the urging of Friedman and Rubin, Goldman set up the Water Street Fund to invest its own capital in distressed securities. But in gaining a control position in senior debt, it forced restructurings that wiped out equity and subordinated debtholders, many of which were Goldman clients. Weinberg was deeply offended by the fund, sources say. It was a case, says a former officer, of "Goldman wins, client loses." In 1991, the fund was disbanded, and the partners who managed it quit the firm to go out on their own.

SCHIZOPHRENIC. More recently, Goldman got into a jam with some of its clients because its Whitehall Street Real Estate LP fund, which invests in distressed real estate, pushed Cadillac Fairview, a big Canadian real estate developer, into Canadian bankruptcy court. That didn't sit well with several parties who are Cadillac Fairview investors and Goldman clients. They felt the firm was merely trying to scoop up bargain assets. Goldman sources say things have been patched up. Says one former partner: "There was always a schizophrenia between trading and [serving] clients."

Despite these problems, Friedman, 57, defends proprietary trading. "I've always believed in the principal investments business," adding that "it has been an excellent business, with an acceptable [risk] profile." And he points out that Gustave Levy, the chairman who died in 1976, was himself an aggressive trader.

Emphasis on proprietary trading and investment was in part behind Goldman's massive overseas expansion in the early '90s. Largely because of the overseas thrust, Goldman's expenses surged 40% from yearend '92 to '94. Like many Wall Street firms, Goldman was anxious to exploit opportunities in Latin America and Asia. It had regretted moving too slowly into some businesses, such as mortgage-backed securities, and into Europe so late, according to Friedman. "Our conservatism meter was too slow for too many years." Adds partner Jaime E. Yordan, who was in charge of Goldman's Latin American business: "We thought there were major things happening in a lot of different places around the world, and that if we missed them, the opportunity cost to the franchise would be substantial."

Goldman pushed ahead with a huge staff increase, hiring hundreds of bankers from other firms. By 1994, for instance,

Getting Goldman Back on Track

WENT IG	HOW TO FIX IT
anagement	Set up better mechanisms for succession, budgeting, strategic planning, and risk control
norale osion of ial culture	Restore traditional level of profitability; amend compensation plan
earnings apital ainties	Cut overly concentrated risk; consider going public; expand such promising activities as asset management and loan syndication
ive costs	Downsize staff in the U.S. and overseas and reduce other expenses
nphasis on etary trading vestments	Restore traditional client orientation
etirements partners	Persuade key partners to remain in the firm; expand size of partnership

DATA BUSINESS WEEK

PROPRIETARY INVESTING

"I've always believed in the principal investments business"

— STEPHEN FRIEDMAN
Retired chairman

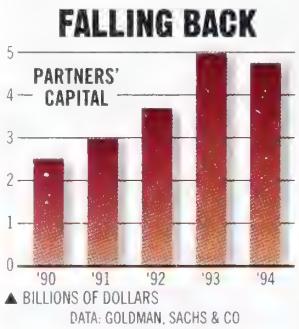
Goldman had built up a Hong Kong staff of nearly 500. To many observers, it seemed Goldman was "flying by the seat of its pants," as one former partner puts it. Friedman was so optimistic about the prospects for Asia that he told the staff there on a 1993 visit that he regarded Hong Kong as his "legacy," according to a former staffer. Friedman denies this.

SKINNY FEES. Goldman has been especially active in China, even taking the highly unusual step of investing $100 million of its own money in power plants and real estate projects. Yet the firm overplayed its hand, says a former employee. The partners in New York, he claims, "got greedy. They asked for too much for the investors, and the Chinese decided [the deals weren't] in their interest," and backed out of them.

In one instance, he says, Goldman's Asian bankers had negotiated another $100 million deal, this time with provincial authorities to privatize a Shandong power plant. But that fell through in early 1994 because Goldman was demanding sovereign loan guarantees on top of an already agreed-upon 20% return—something China's State Council decided was too pricey.

Another problem Goldman didn't bank on were the skinny commissions in the highly competitive Asian market. One former Hong Kong staffer says Goldman took on deals to make a name for itself, such as the privatization of Singapore Telecom, in which Goldman's profits fell far below expectations. Friedman admits Goldman may have erred by embracing what he called the "seamless web" argument—that in order to get into certain profitable businesses, a new entrant has to engage in certain unprofitable businesses. More recently, Goldman let go or sent home perhaps as many as 100 people. Referring to China, Corzine says: "We have had many things that worked, and we have had many frustrations, but we are positive on China."

Goldman did no better in Russia. In early 1992, the Russian government appointed Goldman its adviser on foreign investment, giving the firm good reason to believe that it would have the inside track on privatizations. But it soon got caught in the middle of a government debate on the role foreign companies could play in this process, sources say.



Goldman had been selected to work with Leonid Grigoriev, head of the Committee on Foreign Investment, who, like Goldman, favored deals with special access for foreign investors. Another faction, led by Anatoly B. Chubais, insisted on procedures that didn't provide special access. He and others had misgivings about Goldman receiving fees from foreign companies while advising the Russian government. By the fall of 1992 Goldman's fate was sealed when Grigoriev's committee was disbanded. Says Anders Aslund, a Swedish economist and adviser to the Russian government in 1992 and 1993: "Goldman Sachs really thought they could run policy, and you can't do it like that in Russia, so they were punished." Last December, Goldman more or less gave up and moved its Russian business to Frankfurt.

PESO PUMMELED. Goldman now has some egg on its face in Mexico as well, though not to the extent it does in China and Russia. For one thing, in the wake of the Dec. 20 peso devaluation, deals it touted have plummeted in value. Like many other firms, Goldman admits to having been caught unawares. Friedman, for one, acknowledges being shocked by the size of the devaluation. But he says that by that time Goldman was positioned "cautiously" in peso-related holdings. Says Corzine: "We're not going to walk away from Mexico. But we have to think differently about how to manage currency risk today than we might have anticipated 16 months ago."

Not all of Goldman's problems have been in emerging markets. In late 1989, the firm set up a new entity in London called Goldman Sachs Asset Management and plunged into fixed-income and currency management. But by the end of 1993, the fund had raised just $3 billion, a drop in the bucket compared with what other brokerage firm asset-management operations manage.

But that wasn't the only problem. Pressured by proprietary traders in London, the fund, which was designed as a low-risk bond fund, began taking more

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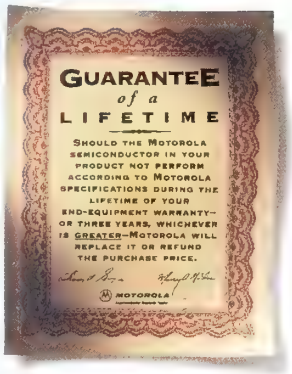

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currency risk than the fund managers were comfortable with, say several former Goldman employees. When the Fed raised U.S. rates in February, 1994, and the European bond market tanked, the fund suffered unusually big losses. Many investors withdrew their money and fund assets fell by half, say the former employees. Goldman says the returns last year were positive.

That wasn't the only black eye Goldman got in Britain. In the wake of the 1991 death of Robert Maxwell and the collapse of his media empire, Goldman had to pony up $120 million, according to press reports, to satisfy claims by the Maxwell pension funds, who claimed shares bought by Goldman in Maxwell companies really belonged to them. In 1993, Goldman was fined $256,000 by the Securities & Futures Authority, the largest fine ever levied by the SFA, for breaching its capital requirements in the Maxwell transactions.

Despite these overseas misadventures, Corzine remains committed to the global strategy, albeit in slimmed-down form. He adds that "we probably could have been wiser in our pacing."

While the missteps were embarrassments, it was Friedman's abrupt departure that has most destabilized Goldman. For all the years he spent at the firm, he apparently had not thought much about succession. He had promised his wife he would retire in mid-1993. But when Rubin left to become Bill Clinton's economic adviser, Friedman decided to stay on and his pace became even more grueling. He did not delegate some of those duties to a new co-chairman because he couldn't decide on one. At least one former partner attributed this to Friedman's alleged inability to share power. "Hogwash," Friedman retorts.

The timing of Friedman's retirement announcement to his colleagues in early September couldn't have been worse. That same day, Goldman had to weather another huge trading hit. With 1994 already shaping up as terrible, many partners regarded their colleague as a captain who abandoned ship. Some sources say Friedman's resignation nudged many partners who had been considering retirement to leave. The result was an exodus that had not been seen in years. In all, 35 general partners "went limited" in 1994. Says one former partner: "He [Friedman] set an example for others. It was a signal event."

"I was pretty surprised," Corzine admits, although he insists that Frie man's resignation triggered those of n more than "a handful of other par ners" close to Friedman. Yet he admi that the move has created a "multip ripple effect" throughout the firm. "Ar time there's a transition, the huma connections get shaken. It takes tim for the depth of connections to b reestablished, and we are well on th way to doing that."

The departure of partners may al have been accelerated by a meeting f new partners at a Westchester (N.Y conference center. These meetings a perhaps the most prestigious initiati rite on Wall Street. After years of toili 16-hour days, they had caught the bra ring, and now could look forward to ac mulating at least $5 million a year ea for the rest of their careers.

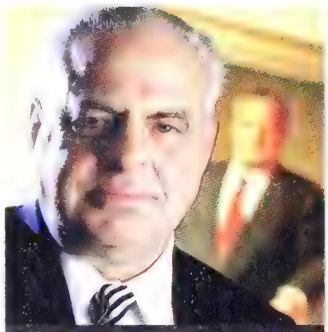
But, according to one former offic when a slide-show presentation disclos to them details of Goldman's financ condition known only to partners, ma of the inductees were incredulous a demanded a detailed explanation. Th discovered that the firm's capital w eroding and that its leverage was greater than they had imagined. A they realized that in addition to the Cr

HIGH CALIBER

Since its founding, Goldman boasted the Street's best management and highest morale. But now, there's a devastating exodus of partners and top managers

ROBERT E. RUBIN
Co-chairman, 1990 to 1992

SIDNEY J. WEINBERG
Chairman, 1930 to 1969



JOHN L. WEINBERG
Chairman, 1984 to 1990

GUSTAVE L. LEVY
Chairman, 1969 to 1976

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sus-like rewards of being a Goldman partner, there were significant liabilities as well. Goldman's deteriorating finances prompted a draconian cost-cutting program aimed at reducing staff 15% to about 8,200 by Groundhog Day. Nothing was spared. According to one former staffer, Goldman eliminated everything from first-class travel and to leased plants. Even small plants were discarded to save the expense of paying an outside watering service.

Yet this has been just a prelude to a sweeping rethinking of the firm's management structure and methods. Says Corzine, referring to all Wall Street firms, including Goldman: "We all could do a better job... managing through peaks and valleys." In something of a reversal of roles, he says the firm was getting advice from corporate clients on how to manage corporate "downsizings." He hopes to beef up global asset management, despite the London troubles, and move into loan syndication.

"SKEWED." For all its trading setbacks, Corzine insists Goldman will always seek to remain a trading powerhouse. "I'm a trader. I believe in trading. I believe that Goldman Sachs will be one of the great trading firms." Yet he concedes concern about the expansion of proprietary trading: "We may have gotten the balance skewed. Trading should not be so dominant that it overwhelms other aspects of the firm's earning capacity. We did have more concentrated positions, in retrospect, than we would like to have had."

Corzine denies that the firm's leverage is excessive and insists that its $4.8 billion in capital is now more than adequate. One reason is a $250 million capital injection in late 1994 from Hawaii's family-owned Bishop Estate. "For the moment, we are not employing all the capital we have," he says. Still, many former partners and officers have speculated that it is inevitable that Goldman will have to go public to raise permanent capital. But Corzine says the "likelihood of us going public any time soon is pretty low. I don't think the partners want Goldman Sachs to be a public company. The partnership structure is an extraordinarily motivational force."

More broadly, Corzine says that one of his missions will be to "convey some emotional electricity about how I feel about the firm, its people, and its future." For a lesson in generating emotional electricity, it certainly wouldn't hurt to walk the halls with John Weinberg.

By Phillip L. Zweig in New York, with Rose Brady, David Lindorff in Hong Kong, and Paula Dwyer in London

ARBITRATION

ABUSIVE BROKERS BEWARE

It just became easier for investors to win punitive damages

Chalk one up for the little guy. With Clarence Thomas the only dissenter, on Mar. 6, the U.S. Supreme Court ruled 8-1 that brokerage firms cannot deny investors punitive damages in securities arbitration cases. "This is a landmark decision that's a real victory for investors," says David E. Robbins, a New York arbitration attorney.

Until now, the securities industry had found a roundabout way to impede arbitrators from awarding investors punitive damages.

PUNITIVE AWARDS AT MAJOR RETAIL FIRMS

	MAY 1989-DEC. 1993*	
	NUMBER	$ MILLIONS
PRUDENTIAL SECURITIES	22	$5.7
SHEARSON LEHMAN	27	3.2
PAINEWEBBER	9	2.6
MERRILL LYNCH	6	2.1
DEAN WITTER REYNOLDS	14	2.1
BEAR STEARNS	4	1.2
RAYMOND JAMES	5	.4
KIDDER PEABODY	4	.3

* Latest available data

DATA: *SECURITIES ARBITRATION COMMENTATOR*

How? Through the agreement that the customer signs when an account is opened. Most agreements stipulate that in arbitration, the laws of New York State will prevail. Unbeknownst to most investors, in New York, the headquarters of the securities industry, state law prohibits arbitrators from awarding punitive damages. Now, the Supreme Court has ruled that because the customer agreements didn't clearly state that investors are giving up the right to punitive damages, they cannot be prevented from collecting such awards.

The Supreme Court ruled for Antonio Mastrobuono, a Chicago college professor, and his wife. They sued a broker with New York-based Shearson Leh man Hutton, now Smith Barney Inc for making unauthorized trades. Tw federal courts overturned an arbitratio panel ruling that awarded the coup $400,000 in punitive damages. On ap peal, the Supreme Court reversed th lower courts since Shearson hadn't mad it clear that the Mastrobuonos wer waiving their rights to punitiv damages.

Investors can't expect to sta wallowing in fat awards an time soon, though. Investo currently win punitive damag in some 2% of securities-ark tration cases in jurisdictions oth than New York State. Cases th warrant punitive damages are st rare because they must be egregiou "I wouldn't expect to see too mu of an increase in punitive damage just because of the Supreme Cou ruling, says Richard Ryder, edit and publisher of *Securities Arbitr tion Commentator.*

OBLIQUE OUT. In response to the S preme Court ruling, brokerage fir could revise the agreements to ma it clear that arbitration awards w be limited to compensatory, not pu tive, damages. But that would difficult, since the New York Sto Exchange and the National Assoc tion of Securities Dealers have rul that say brokerage firms can't spec ically limit relief in contracts, sa Ryder, even though they have manag to do so up until now with the obliq agreements. "It's not as simple as writing agreements," says Theodore I vine, PaineWebber's general counsel.

The industry may get some help fr the Republican Congress. Proposed gal-reform legislation limits puniti damages in the courts to $250,000 three times compensatory damag "The reform bills will effect the sta dards applied in future cases of th type" in arbitrations as well, says Alf W. Cortese Jr., a partner at Pepp Hamilton & Scheetz. In the meantir score one for investors.

By Leah Nathans Spiro in New Yo

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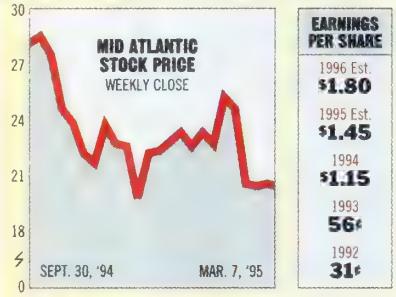
BY JEFFREY M. LADERMAN

THIS HMO SHOULD GET WELL SOON

The market can be merciless on hot growth stocks when earnings start to slow. Just look at Mid Atlantic Medical Services (MME), the largest operator of health-maintenance organizations (HMOs) in the District of Columbia-Maryland-Virginia region. The shares, which reached a high of 30 in October, dropped to 24 in February, when the company reported results for the fourth quarter and for all of 1994. Even

A BIG FISH, BUT A SMALL POND



▲ DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS; ZACKS INVESTMENT RESEARCH; VOLPE, WELTY & CO.

though the Street's earnings expectations of $1.15 per share were met, the stock has fallen to 20. At this price, many pros think this Big Board stock is dirt cheap.

Mid Atlantic's fans acknowledge that, unlike 1994, this year won't see earnings double or even come close. Cost-containment and fierce competition are bearing down on HMOs, and no one's counting on premium hikes. Still, analysts expect earnings of $1.45 a share in 1995—a 26% gain. If they're right, the stock is selling at only 14 times earnings and at a 20% discount to the HMO industry. "It's the most undervalued company I follow," says analyst Margot Durow of Punk, Ziegel & Knoell.

Institutional investors give Mid Atlantic management high marks for delivering good service while keeping an eye on profits and adding new members. In January alone, membership grew 10%, and Durow thinks the increase will be 25% for the first quarter. What's more, 90% of the doctors in its network are board certified, well above the national average, which is a strong selling point.

Then why is the Street down on this HMO? Perhaps because, unlike the big outfits such as United HealthCare and U.S. Healthcare, Mid Atlantic is a regional company. But there's plenty of room for expansion in Virginia and the Carolinas, where HMO penetration is light.

John Ballen, who manages the MFS Emerging Growth Fund, says that Mid Atlantic's regional dominance will help it win a good chunk of the growing Medicaid and Medicare business. To rein in costs, says Ballen, "states will have to push Medicaid recipients into HMOs, and the Feds will incentivize Medicare patients to enroll." MFS is Mid Atlantic's largest shareholder, with an 8.3% stake.

Edward Keaney of Volpe Welty believes the stock will reach 35 by yearend. If investors don't recognize the stock's value, some think another HMO operator will. The company could fetch 35 to 40 a share in a buyout.

A CHEAP WAY ONTO THE GOLF COURSE

Yell "fore" on Wall Street, and the golf-club makers Callaway Golf and Cobra Golf come to mind. These stocks are down 15% to 20% from their highs, as competition rises and earnings growth slows. Michael Haines, who runs Founders Discovery Fund, suspects that's why the shares in Golf Enterprises (GLFE) are down. The over-the-counter stock went public at 13½ in July and ran up to 15. It now sells at just 9½.

But Golf Enterprises isn't in the equipment business. The Dallas company buys and leases golf courses—38 of them at last count. Its plan is to acquire properties that can be improved in the clubhouse and pro shop as well as on the fairway. Analyst David O'Neill of William Blair, Golf Enterprises' investment banker, says the company has shown it can double operating cash flow at each course in about two years.

Because of the slide, shares are selling for less than four times estimated 1995 cash flow of $2.50 per share. That multiple is less than Golf Enterprises pays for some of its properties. "It's cheap, and when it's discovered, the stock should double," says Haines, who, through the Founders Discovery Fund and private accounts, holds 3.8% of the shares outstanding.

AMERICA'S TOP LAB, NOW IN THE MAKING

When National Health Laboratories (NH) announced its plan to merge with Roche Biomedical, a unit of Switzerland's Hoffmann-LaRoche, health-care analysts and institutional investors cheered. The No. 3 and No. 4 lab-services companies would combine to create the largest in the U.S., with impressive economies of scale. But NH stock took only a modest step up, from 12 to 13½, even though some valued the package of $5.60 in cash, warrants and new stock at 17 to 19 a share.

The deal has cleared antitrust hurdles and is expected to close in April, but National Health Labs still sells at 14, and some think it's a good buy. A detailed proxy statement should be available shortly.

The proxy will shed light on the Roche unit and help determine the earning power of the new entity. "We believe Roche's margins are significantly below NH's, so there's lots of room for improvement," says Alan Snyder, whose Snyder Capital Management holds nearly 2 million shares. NH figures the merger can slash about $90 million in overhead this year and next. Donaldson, Lufkin & Jenrette analysts say the 1996 earnings per share could exceed $1, making today's valuation less than 12 times earnings.

BIGGER LOOKS LIKE BETTER

▲ DOLLARS
DATA: BLOOMBERG FINANCIAL MARKETS

Investors in National Health will be in billionaires' company. Ron Perelman's MacAndrews & Forbes Holdings, now 24% owner of NH, will hold a stake about half that big in the new company. And GEICO holds 9%: GEICO is 49%-owned by Berkshire Hathaway, Warren Buffett's holding company.

And that's not all. Some takeover players think that the proxy may invite an offer from Corning or SmithKline Beecham, the two other major players in the U.S. lab market. Corning declined to comment. And a SmithKline spokesman said his company "does not respond to speculation."

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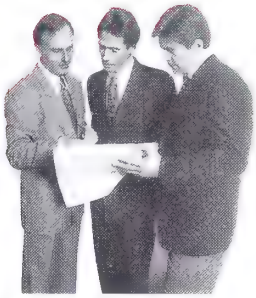

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EDITED BY AMY DUNKIN

MAKING SURE UNCLE SAM DOESN'T PUNISH YOUR PORTFOLIO

Paying taxes isn't any fun when you make money on your investments. But it's especially galling to owe Uncle Sam for investments that have declined in value. That's the grim predicament many mutual-fund holders are puzzling over as Apr. 15 approaches.

The reason this occurred: Funds that performed poorly in last year's volatile stock markets faced net shareholder redemptions, forcing them to sell holdings. In many cases, managers chose to unload highly appreciated stocks without taking compensating losses, exposing shareholders to stiff capital gains. Twentieth Century Growth Investors had a huge capital-gains distribution of $3.22 per $21.72 share, which resulted in an estimated 1994 aftertax total return of –5.6% for investors in the 31% tax bracket (compared with a pretax return of –1.5%). Results like these "add insult to injury," says William Klipp, chief operating officer at Charles Schwab Investment Management.

"DOUBLE-EDGED SWORD." Mutual-fund investors can't control capital-gains distributions. The best you can do is be alert in tough years such as 1994 and try to get out of the fund ahead of the distribution. Ask the company in November if it expects to make a large capital-gains payout. You can always return to the fund later. You may be able to avoid taxes in the future by seeking out tax-efficient funds. Or, if you manage your own portfolio of stocks, there are plenty of strategies you can use to help minimize your tax burden.

When selecting funds, be sure to compare pretax and aftertax returns, which can often be dramatically different. Although, as 1994 shows, fund taxes vary from year to year, the strategies of some managers dictate the fund's general tax-efficiency. BUSINESS WEEK provides pretax and aftertax returns in its annual Mutual Fund Scoreboard (BW—Feb. 6). To arrive at a figure you can use to compare two funds' tax efficiency, divide the aftertax by the pretax return.

Also, check to see if a fund is carrying a high percentage of unrealized capital gains (also in BUSINESS WEEK). Don't avoid a fund just because it has a high untaxed gain. It could be a result of the fund's winning, low-turnover strategy. Capital-gains taxes are "a double-edged sword," explains Maryanne Roepke, vice-president and treasurer at Twentieth Century. "You want a fund to be successful, but you don't want to pay for the gain."

Mutual-fund companies generally don't like to cramp their portfolio managers' styles by requiring them to consider tax consequences of trades. So you won't find a lot of fund managers wh seek out losses simply to u as a deduction against gain "The feeling here is y manage funds primarily achieve the best return without being restrained b tax considerations," says Rowe Price spokesman St ven Norwitz. Besides, fun have little incentive to lim tax exposure, since most pe ple judge funds on pretax r turns and many shareholde use funds in tax-deferred r tirement accounts.

But some fund sponso

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Similarly, mutual-fund in-
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ntify the shares before you
cash out. If you're in a high income-tax bracket, try to hold stocks for at least a year to benefit from a lower capital-gains rate (28%). Marginal income-tax rates, which go as high as 39.6%, are levied on gains in stocks held less than a year.

Primarily, tax efficiency in mutual funds comes down to low turnover. In general, value funds tend to have lower turnover than growth funds, although there are plenty of exceptions. Index funds, which hold a weighted portfolio of every stock in a market average like the Standard & Poor's 500-stock index, are among the most tax-efficient. The average actively managed fund has about a 75% turnover rate, which can be 6 to 10 times higher than an index fund, says Vanguard. Before tax, the 500 Portfolio of Vanguard Index Trust did better than 78% of all funds over 10 years. Aftertax, its returns place it higher than 85% of all diversified equity funds, says John Bogle, Vanguard's chairman.

NO BITE. Recently, a few fund companies have built on the basic tax efficiency of index funds. The Schwab 1000, Schwab Small Cap, and Schwab International index funds are all managed with the express intention of deferring capital gains. Unlike most index funds, appreciated stocks stay in the portfolios indefinitely, even if they drop out of the index. The funds will sell stocks that don't belong when they have losses that can be used to offset gains, Klipp says. The Schwab 1000 had only a 3% turnover rate last year.

Last July, Vanguard introduced its Tax-Managed Fund, which is made up of three portfolios: balanced, capital-appreciation, and growth-and-income. Each portfolio is based on indexes, so the turnover is low. Managers also sell holdings to realize losses that can offset gains. Plus, Vanguard imposes a small redemption fee on shares held less than five years to discourage trading. The minimum investment is $10,000.

The problem with tax-efficient funds is that capital gains inevitably come due when you sell your shares. But there is one way to avoid paying the taxes: When you donate highly appreciated stock to charity or leave it as an inheritance, the equities are automatically stepped up in basis to the current share price. Your beneficiaries or the charity can then sell without facing a tax bite.

Of course, you get the most control over paying capital gains when you assemble your own stock portfolio and can plan when to buy and sell holdings. If you are tempted to sell a winner to buy another stock, you had better hope the potential gain on the new stock will make up for the taxes you'll owe, as well as transaction costs. When you take a gain, look for securities with losses that you can "harvest" as a tax deduction. Up to $3,000 in excess losses is deductible against income each year, and the rest can be carried forward to future years.

Sophisticated investors may want to reduce their tax burden by "swapping" holdings. This is essentially a way to take a loss in a stock you still like just to get the deduction—so it's often used at the end of a year. You sell the stock, then immediately buy a similar holding. If you want, after a month, you can buy back the original stock without running afoul of "wash sale" rules, which prohibit investors from taking a tax deduction for a loss in a stock they repurchased within 30 days. Before you try it, make sure the tax savings will make up for the transaction costs incurred.

MODEL INVESTORS. Private investment advisers and brokers should automatically implement many of these tax-saving strategies. And some firms are using their strength in this area as a selling point. Last September, J. P. Morgan launched "Tax-Aware Equity Management" for private-banking clients with at least $5 million invested with the firm. Large-cap stock portfolios are run through a computer model containing analysts' forecasts for more than 600 companies. Before a trade is executed, the model checks to make sure the gain forecast for the new stock is big enough to make up for the tax and commission costs of selling the old stock. It also suggests other stocks that can be sold for an offsetting loss. Morgan expects its forecasting abilities and speedy, tax-efficient trading to allow it to return 1% to 2% more than the S&P 500 after taxes.

Whether you purchase stocks or mutual funds, you shouldn't let tax considerations be the driving force behind your investment plan. Real returns are what count. But if you keep taxes in mind, you can enjoy handsome long-term results without letting Uncle Sam crash your party. *Amey Stone*

INVESTING Index funds, with their low turnover rates, are among the most tax-efficient

ow to Pare Taxes on Stock Gains

l appreciated securities only necessary to defer capital- tax as long as possible.

to hold onto a stock for a full o it will be subject to capital- treatment. Profits from stocks ess than a year are taxed as e, often at a higher rate.

en you sell securities at a gain, sell others with offsetting . Up to $3,000 of excess loss- leductible against ordinary in- annually, and the rest can be l forward to future years.

ou are reducing your position in that has appreciated, sell the you paid the most for first, so apital gain will be smaller.

ou plan to leave an inheritance to charity, designate your ighly appreciated stocks. Eq- are automatically stepped up s to the current price level hey are given to charity or left eficiaries in a will.

DOES THE COVERAGE MATCH THE CALAMITY?

The fire that destroyed Sport-O-Rama health club in Monsey, N. Y., generated enough heat to melt the building's steel beams. Owner Mark Goldstein believes he and his partner got burned again a few weeks later in January, when they assembled their insurance claim. The insurer refused to reimburse Sport-O-Rama for the hundreds of thousands of dollars of prepaid membership fees it must return. Instead, the insurer informed Goldstein it would pay only for the net income the club would have made during months of rebuilding. "It's a big thing with people who collect money up front. That was one large gap we didn't foresee," he says.

To survive a disaster, small-business owners need to match their insurance to the financial crisis that could occur. That often means asking insurers questions that make them squirm about exactly how they settle specific types of claims. In Goldstein's case, he needed to clarify whether he could get reimbursed for refunded membership fees—before he purchased a policy. Had he pressed the point, he may have learned that he needed a special rider to cover that type of loss. Or he might have chosen to search for a company with a more favorable policy.

KEEP TRACK. Standard small-business owner policies provide insurance against business interruption, or lost income, in addition to property and liability coverage. They pay for fixed expenses such as payroll, debt, and taxes that continue even though business has ground to a halt.

Premiums start at $250 to $300 for a year's worth of business-interruption protection, plus a maximum benefit of $50,000 for property damage and $300,000 for liability claims. A more typical policy would cost $1,500 a year and buy $1 million of liability, $100,000 of property coverage, and a year's income replacement. Buffalo-based Nova Casualty, which caters to small businesses, limits its business-interruption benefit to 20% of the coverage limit on your building and contents plus 100% of the personal-property limit. The minimum premium is about $200 a year. A few companies, such as RLI Insurance in Peoria, provide lost-income protection under home-office policies.

COVERED: DAMAGE FROM FIRE AND SMOKE

To collect for business-interruption losses, you must be able to document your cash flow and expenses. Be prepared to hand over past tax returns, receipts, and records of continuing expenses, such as salaries or rent. That can be a problem for owners who deliberately keep profits low to avoid taxes. "If you haven't been making any money the last four years, you have no loss," warns Rick Blank, an agent at Preferred Services Group in White Plains, N. Y. And remember: Keep copies of all records off your premises.

SMART MONEY

Pin down how tightly the insurer's adjuster will interpret vague phrases in the policy, such as "fixed expenses." For example, who are the key employees who must be kept on the payroll until you reopen? The chef at a gourmet eatery? Maybe. The cook at a mom-and-pop diner? Probably not. "We won't pick up the entire payroll expense and all the time-card employees, but we will pay for management," explains Verno Veal, manager of produ planning and development f State Farm Fire & Casualt in Bloomington, Ill.

Above all, become familia with the policy limits. Sta dard policies cover fires, win storms, an even riots, suc as those that ravaged L Angeles in 1992. But floo from natural bodies of wate are excluded under busine owner policies, and separat flood insurance doesn't cove lost income. Earthquake i surance must also be pu chased separately. And co sequential or indire damage is not covered— say, from downed utilit lines more than 500 fe from your business th shut you down.

REALITY CHECK. So pa close attention to th kinds of losses you ma sustain that require sp cial coverage. If you' a retailer earning mo of your money in th fourth quarter, mak sure your lost-incom benefit is weighted t that busy period, say Sean Mooney, an economis with the Insurance Informa tion Institute.

You may be better off d vising a disaster-recovery pla rather than buying extra co erage to insure every risk however. That's what man businesses learned after th World Trade Center bombin in New York City in Febr ary, 1993. They needed onl phones, computers, and furn ture to work again. The Na tional Insurance Consume Helpline (800 942-4242) offe a free brochure, *Insurin Your Business Against a Co tastrophe*, that outlines th components of a disaster pla

Still, matching your cove age to forecasts of your cas needs is a must. In an eme gency, that reality chec could mean the difference be tween a temporary closin and a going-out-of-busines sale. *Richard Korma*

UNDERSTANDING A BUSINESS OWNER'S POLICY

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• Lightning	• Earthquakes
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BEFORE YOU SHUN YOUR TRAVEL AGENT...

With spring just around the corner, many Americans are getting the travel itch. If you're one of them, and you plan on using a travel agent to write up your airline tickets, you may be in for a surprise. One of the last great service freebies is about to end this month as many agencies start imposing flight-booking fees of up to $20. The move is an attempt to recoup revenues lost by a recent change in the commission structure: Instead of paying agents a flat 10%, the major carriers have instituted a $50 cap on all round-trip domestic tickets and a $25 max on one-way fares.

Before you scrap your flight plans and load up the car, consider this: Travel agencies can't afford to let you go it alone just to skirt their fees. Many haven't yet figured out how to respond and may choose to absorb the lost commissions or waive ticketing fees for frequent customers. The American Automobile Assn., for example, will continue to write airline tickets free of charge for its members.

Those agencies that have announced changes are generally holding down the extra costs to $10 to $20 per ticket, and in some cases, they're throwing in travel discount vouchers to ease the pain. But make your reservations with care: Many agencies will also charge an additional service fee for changing and reissuing tickets.

If you do business with one of the 900 U.S. offices of the nation's largest travel agency, American Express Travel Related Services, you won't leave home without paying $20 per ticket for domestic flights costing less than $300. But bundle several low-priced tickets into a single transaction of $500 or more, and Amex drops the fee. If you do have to cough up, the service charge will earn you dollar-for-dollar credits toward cruises or other tour packages booked through Amex within a year.

Similarly, in exchange for a $15-per-ticket fee, the No. 2 agency, Minneapolis-based Carlson Wagonlit Travel, gives you a $25 certificate you can apply toward future cruise and tour vacations arranged through the agency. If you make other reservations with your plane tickets through Carlson, you won't have to pay anything extra. "Travel agents are looking for that extra hotel or car commission. That's additional income they can earn at no extra cost to the traveler," explains Scott Tarte, chief operating officer at Travel One in Mt. Laurel, N.J.

Dodging Those New Ticketing Fees

DON'T STOP WITH THE AIRLINE TICKET If you also need car, hotel, or cruise reservations, let your travel agent book those as well. Some agencies will waive the airline-ticket charge in exchange for these add-on commissions.

LOOK FOR SPECIAL INCENTIVES TO OFFSET FEES For example, Carlson Wagonlit Travel charges $15 for airline-only purchases, but it also throws in a $25 certificate that you can apply toward future trips booked with the agency.

TRUST YOUR EXPERIENCE If you travel a certain route often, you probably have a sense of which carriers typically offer the best fares. Call them yourself to compare and then book directly with the airline.

FARE-SURFING. Rosenbluth Vacations, which has 27 offices primarily in Delaware, Pennsylvania, and Maryland, is hoping to tempt fee-averse travelers with a national toll-free reservation line to be unveiled on Apr. 3. While the company's walk-in clients face a $10 fee for airline bookings, callers to the 800 number can order tickets (as well as hotel rooms and car rentals) at no charge. Don't look for extensive hand-holding and consultation on planning your trip, though. The service is designed for travelers who know where they want to go and just need someone to do the fare-surfing and ticketing for them.

TRAVEL

Of course, an easy way to circumvent travel-agent fees is to contact the airlines directly and make your own reservations. Particularly if you travel a certain route often, you should know which carriers typically offer the best fares. If you try always to fly with the same airline to build up mileage in your frequent-flier account, then you only have to make one call. Or if you have a computer, you can quickly price-shop all carriers through the Eaasy Sabre reservations service available to subscribers of many online networks such as Prodigy or CompuServe. And later this month, American unveils Express Reservations, a new no-fee, book-it-yourself service for American Express cardholders on America Online.

Remember, though, that airline fare structures are complicated and ever-changing, so a good travel agent can sometimes pin down a better deal. If the agent winds up saving you big bucks on your ticket, the fee may be a small—and fair—price to pay. *Maria Mallory*

WORTH NOTING

■ **TAX ADVICE.** If you're having trouble with your 1040, call Money Minds, an independent group of financial advisers (800 275-2272/2237). Calls normally cost $3.95 a minute, but Money Minds will answer unlimited tax questions from first-time callers for a flat $10.40 through Apr. 10. Better yet, on Apr. 11, all advice is free.

One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. 1-800-543-4636

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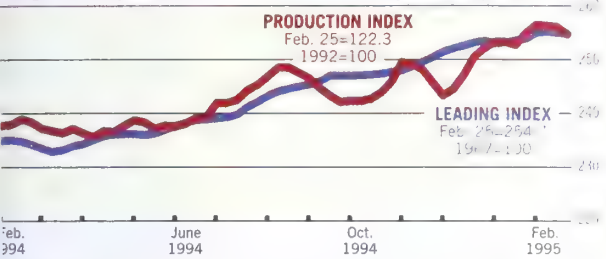
Business Week Index

RODUCTION AND LEADING INDEXES

Change from last week: –0.6%
Change from last year: 7.8%

Change from last week: [illegible]
Change from last year: 8.8%



ndexes are 4-week moving averages

production index fell during the week ended Feb. 25. But before culation of the four-week moving average, the index rose to 122.4, from a ised 121.7. Stronger coal, steel, and paper output and rail-freight traffic the increase.

leading index was nearly unchanged for the latest week. The unaveraged ex, at 254.2, also moved very little compared with the previous week's ding of 254.3.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/4) thous. of net tons	1,997	2,046#	6.3
AUTOS (3/4) units	141,000	146,490r#	–4.2
TRUCKS (3/4) units	119,483	118,238r#	3.3
ELECTRIC POWER (3/4) millions of kilowatt-hrs.	60,720	58,157#	2.4
CRUDE-OIL REFINING (3/4) thous. of bbl./day	13,647	13,334#	6.8
COAL (2/25) thous. of net tons	23,079#	21,024	6.1
PAPERBOARD (2/25) thous. of tons	934.0#	943.6r	5.3
PAPER (2/25) thous. of tons	855.0#	845.0r	1.9
LUMBER (2/25) millions of ft.	432.3#	437.7	–12.4
RAIL FREIGHT (2/25) billions of ton-miles	24.7#	23.6	8.3

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
OCK PRICES (3/3) S&P 500	485.48	485.71	4.4
RPORATE BOND YIELD, Aaa (3/3)	8.15%	8.23%	10.7
USTRIAL MATERIALS PRICES (3/3)	113.0	113.1	NA*
SINESS FAILURES (2/24)	NA	301	NA
L ESTATE LOANS (2/22) billions	$467.1	$466.6r	11.6
NEY SUPPLY, M2 (2/20) billions	$3,585.8	$3,588.5r	1.7
TIAL CLAIMS, UNEMPLOYMENT (2/18) thous.	344	348r	–8.3

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/8) $/troy oz.	380.000	375.700	0.9
STEEL SCRAP (3/7) #1 heavy, $/ton	141.50	142.50	1.4
COPPER (3/4) ¢/lb.	136.5	138.5	49.6
ALUMINUM (3/4) ¢/lb.	87.5	92.3	42.3
COTTON (3/4) strict low middling 1-1/16 in., ¢/lb.	101.39	96.25	38.6
OIL (3/7) $/bbl.	18.62	18.56	31.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (3/7)	5.93%	6.10%	3.25%
MERCIAL PAPER (3/7) 3-month	6.18	6.13	3.84
TIFICATES OF DEPOSIT (3/8) 3-month	6.21	6.13	3.77
D MORTGAGE (3/3) 30-year	8.72	8.88	7.62
USTABLE MORTGAGE (3/3) one-year	6.51	6.63	4.48
ME (3/8)	9.00	9.00	6.00

ces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/8)	90.48	96.76	105.13
GERMAN MARK (3/8)	1.38	1.47	1.68
BRITISH POUND (3/8)	1.63	1.58	1.50
FRENCH FRANC (3/8)	4.94	5.15	5.73
ITALIAN LIRA (3/8)	1650.5	1643.5	1666.0
CANADIAN DOLLAR (3/8)	1.41	1.40	1.36
MEXICAN PESO (3/8)[3]	6.715	5.905	3.270

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nent. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

IL SALES

'ay, Mar. 14, 8:30 a.m. ▶ Retail sales increased 0.2% in February, accord- the median forecast of economists 'ed by MMS International, a unit of w-Hill Inc. Sales have been slack ly, with receipts up just 0.2% in both nber and January. Purchases of dur- oods have been particularly weak.

UCER PRICE INDEX

esday, Mar. 15, 8:30 a.m. ▶ Producer of finished goods likely rose 0.2% in ary for all goods and when food and are excluded. Prices rose 0.3% in y, and just 0.2% when food and are taken out.

INDUSTRIAL PRODUCTION

Wednesday, Mar. 15, 9:15 a.m. ▶ Output rose 0.4% in February, forecasts the MMS survey, the same solid gain as in January. Still, industry is downshifting. Output rose by 0.8% in November and 0.9% in December. Industry likely used 85.6% of capacity last month, from 85.5% of January.

BUSINESS INVENTORIES

Wednesday, Mar. 15, 10 a.m. ▶ Inventories held by manufacturers, wholesalers, and retailers likely rose 0.5% in January. Factories have already said their stock levels jumped 1%. Business sales probably rose by 0.4% in January, much less than the 1.3% gain posted in December.

CONSUMER PRICE INDEX

Thursday, Mar. 16, 8:30 a.m. ▶ The MMS median forecast for the February CPI calls for a 0.3% rise in both the total price index and the core rate, which excludes food and energy. In January, the total index inched up 0.3%, while the core rate rose 0.4%.

HOUSING STARTS

Thursday, Mar. 16, 8:30 a.m. ▶ Housing starts probably bounced back to an annual rate of 1.38 million in February, after plunging 9.8% in January, to a 1.3 million pace. Single-family starts dropped 12.3% for the month. Even so, high mortgage rates mean that housing will continue to trend lower as 1995 progresses.

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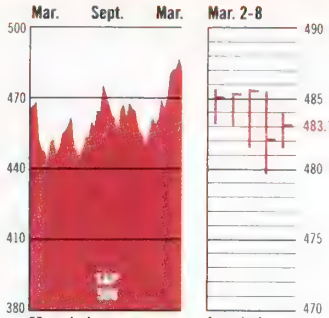
Investment Figures of the Week

MMENTARY

en though the Dow fell below 00, stocks staged a strong per- mance considering the near-col- se of the dollar. IBM hit its high- price in more than two years, d Disney was in demand after it nounced huge sales of its *Lion g* home video. Oil stocks were the rise, too. Bonds were down the week, but rebounded ongly on Mar. 8 as the dollar nced off its lows. Stocks could in the weeks ahead. Three of four technical indicators shown this page are pointing up.

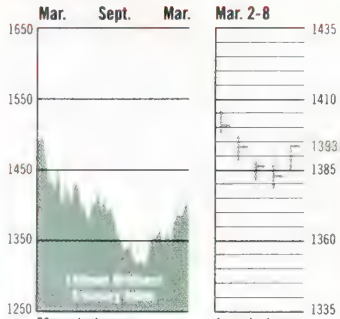
STOCKS



52-week change +3.4%

1-week change –0.5%

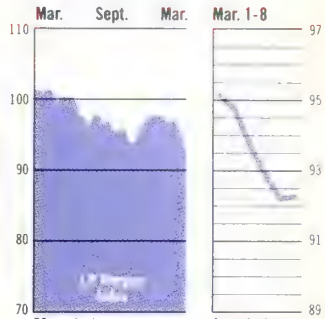
BONDS



52-week change –7.1%

1-week change –1.0%

THE DOLLAR



52-week change –8.8%

1-week change –2.9%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
V JONES INDUSTRIALS	3979.2	–0.4	3.3
SIZE COMPANIES (S&P MidCap Index)	177.6	–0.6	–1.9
LL COMPANIES (Russell 2000)	254.9	–0.5	–4.3
COMPANIES (Russell 3000)	276.1	–0.7	2.0

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
DON (FINANCIAL TIMES 100)	2992.1	–1.6	–7.8
YO (NIKKEI INDEX)	16,621.3	0.0	–16.2
ONTO (TSE COMPOSITE)	4136.0	1.3	–6.9

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.92%	5.89%	3.61%
30-YEAR TREASURY BOND YIELD	7.54%	7.44%	6.84%
S&P 500 DIVIDEND YIELD	2.74%	2.67%	2.47%
S&P 500 PRICE/EARNINGS RATIO	16.1	16.2	21.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	463.1	462.3	Positive
Stocks above 200-day moving average	51.0%	55.0%r	Neutral
Speculative sentiment: Put/call ratio	0.75	0.75r	Positive
Insider sentiment: Vickers sell/buy ratio	0.80	0.78	Positive

BLOOMBERG FINANCIAL MARKETS

NDUSTRY GROUPS

R-WEEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
NSTRUMENTATION	15.0	31.2	HEWLETT-PACKARD	16.8	34.1	119 3/8
OLD MINING	14.9	–6.2	SANTA FE PACIFIC GOLD	36.1	NA	12 1/4
IL EXPLORATION AND PRODUCTION	7.1	–15.5	MAXUS ENERGY	50.0	10.5	5 1/4
PECIALTY PRINTING	6.3	0.3	R.R. DONNELLEY & SONS	7.0	10.5	34 1/4
IL WELL EQUIPMENT AND SERVICES	5.7	3.5	BAKER HUGHES	11.1	6.7	20

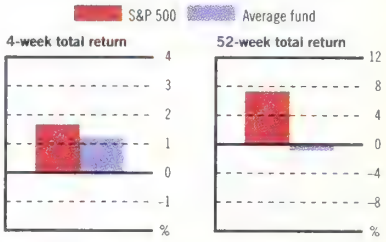
R-WEEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
PECIALTY RETAILERS	–9.3	–7.2	LOWE'S	–15.1	–1.0	32 3/8
LUMINUM	–6.7	–3.7	REYNOLDS METALS	–7.8	–8.9	47 1/2
LECTRIC COMPANIES	–6.1	–11.2	ENTERGY	–12.4	–36.3	21 1/4
EALTH CARE SERVICES	–6.1	0.1	UNITED HEALTHCARE	–14.1	4.5	42 1/2
EPARTMENT STORES	–4.8	–19.8	MERCANTILE STORES	–10.6	7.3	40 1/4

UTUAL FUNDS

MORNINGSTAR INC

DERS -week total return	%
DELITY SELECT ELECTRONICS	11.7
OVETT SMALLER COMPANIES	9.1
HN HANCOCK GLOBAL TECHNOLOGY A	8.5
eek total return	**%**
DELITY SELECT HEALTH CARE	33.7
OVETT SMALLER COMPANIES	29.4
LIGMAN COMMUNICATIONS & INFORM. A	28.7

LAGGARDS Four-week total return	%
WRIGHT EQUIFUND-MEXICO NATL. FID. EQTY.	–28.8
MORGAN STANLEY LATIN AMERICAN A	–27.0
FIDELITY LATIN AMERICA	–21.7
52-week total return	**%**
MONITREND GOLD	–51.6
FIDELITY LATIN AMERICA	–47.8
HERCULES LATIN AMERICAN VALUE	–46.9



ELATIVE PORTFOLIOS

ORI/McGRAW-HILL

r amounts represent the ent value of $10,000 sted one year ago ch portfolio

entages indicate day total returns

Foreign stocks
$10,744
+2.95%

U.S. stocks
$10,650
–1.08%

Money market fund
$10,502
+0.24%

Gold
$9,880
+1.49%

Treasury bonds
$9,613
–2.24%

ta on this page are as of market close Wednesday, Mar. 8, 1995, unless otherwise indicat- dustry groups include S&P 500 companies only; performance and share prices are as of market close Mar. 7. Mutual fund returns are as of Mar. 3. Relative portfolios are valued as of Mar. 7. A more detailed explanation of this page is available on request. r=revised NA=Not available

WANT TO BOLSTER THE DOLLAR? CUT THE DEFICIT

Welcome to America's first international debt crisis. It may look like a plain old dollar crisis, with the buck plummeting against the Japanese yen and the German mark, setting off wild currency gyrations in Europe and bumping up the price of gold and platinum. But it's much worse than that.

The cold-war legacy of gigantic twin towers of debt—from never-ending budget and trade deficits—has generated a humongous overhang squashing the world's financial markets, subverting demand for dollar-denominated securities and dollars. Congratulations, America, the hot-money folks who send trillions around the world every day have just voted to make the U.S. part of the global debt set, along with Brazil, Canada, Spain, Sweden, and, of course, Mexico. The current dollar crisis is just the first taste of a capital boycott by the new international creditor class. If the U.S. doesn't act quickly and appropriately, we just may be looking at the start of the next recession, or worse.

Oddly enough, the economic fundamentals in the U.S. are quite good. Productivity is back up, the nation leads in technology, inflation is low, corporate profits are zooming, and companies are so competitive abroad they are chalking up record exports. But the sins of the past have gained a life of their own. There are now trillions of dollars of outstanding U.S. debt, much of it owed to foreigners. That debt is compounding every minute. If it weren't for $203 billion in interest paid on the federal debt in 1994, the budget would actually have been in balance.

NO ROOM FOR "KILLER" RATES

Mexico was the last straw. The rescue package, a feeble product of a divided government in Washington, pushed the dollar over the edge. To the hot-money traders, the package appears to make the U.S. Mexico's lender of last resort, responsible for that country's huge foreign debt as well as its own. Worse, the $20 billion in U.S. financial aid comes from the Exchange Stabilization Fund—the same pool the Treasury traditionally uses to support the dollar in currency markets. No one knows now how much is available to battle the speculators. To the foreign exchange markets, the whole sad enterprise smacks of the "peso-ization" of the dollar.

The currency vigilantes want blood, and no American policymaker should doubt that the U.S. will have to give it to them, one way or another. The discipline of the market is imposing a stark choice: cut spending or raise interest rates. The Federal Reserve can impose "killer" interest rates that make investing in U.S. government debt so attractive that foreigners will take yet another chance in dollar-denominated securities. But with the economy already showing signs of slowing down, that could easily kill off growth entirely. If there is anything the U.S. doesn't need, it is this recipe for joblessness.

Better to tackle the twin deficits. However maladroit the balanced budget amendment might have been economically, had the virtue of being persuasive. It was a constitution mandate that Republicans wanted for pressuring recalcitra legislators to cut programs favored by constituents. That now gone, and a new mandate is needed. This currency cris should be seen in Washington for exactly what it is—a glob mandate demanding constraint on spending.

THE DEBT GAME IS UP

Unfortunately, after the defeat of the balanced budg amendment in the Senate, the Republicans appear to be w vering on spending cuts. With Democrats posturing about pr tecting Social Security and with Republicans worrying abo losing their political cover, the smart money in Washington betting that little progress will be made on balancing the bu get until after the 1996 Presidential election.

That isn't acceptable. The markets won't permit it. I stead of political posturing, Washington politicians shou level with the voters. The worst canard being perpetrated b both parties is that middle-class tax cuts are needed. Th might help distressed families, but each tax dollar cut mak balancing the budget harder. Despite this, both Preside Clinton and House Speaker Newt Gingrich continue to pro ise hundreds of billions of dollars in new breaks.

Truth is, the government simply must curb its larges Spending on middle-class entitlements and mandatory pr grams has nearly doubled in the past 10 years. More than h the $1.5 trillion of federal spending now goes to fund the programs. More and more, budget deficits are caused b high interest payments to service past debt and by rising pa ments for Medicare and Medicaid. That can't continue. T fee-for-service luxury of Medicare and Medicaid has to be r placed by moving the elderly and needy into health-maint nance organizations or preferred-provider organizations, sa ing nearly $400 billion over a period of seven yea Rationalizing and limiting entitlement programs for far ers, veterans, business, and the poor can save hundreds of b lions more.

The chronic trade deficit must be confronted as well. Du ing the cold war, military and political containment of comm nism took precedence over economic affairs. The U.S. ran t most open of economies, acting as an engine of growth for t more closed nations of Europe and Asia. With the end of t cold war, it is no longer in the national interest to accept me cantilism anywhere in the global community. Indeed, t structural trade deficit that the U.S. runs with Japan a China has built up a mountain of foreign debt. It makes t U.S. dependent on capital inflows from abroad—and vuln able to pressure for higher interest rates and slower grow That's what the current dollar crisis is all about.

The dollar crisis demands facing harsh truths. It is a ma date to cut America's twin deficits and begin its long tr back to becoming a creditor nation once again. *Carpe die*

T&T vs. BRITISH TELECOM / THE FALL OF CARLOS SALINAS

NESS WEEK
March 27

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BusinessWeek

MARCH 27, 1995 A McGRAW-HILL PUBLICATION $2.95

THE BUSINESS WEEK

1000

AMERICA'S MOST VALUABLE COMPANIES

How They Rank In Market Value

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Bracing For A Landing

New Forecasts For 1995 Earnings

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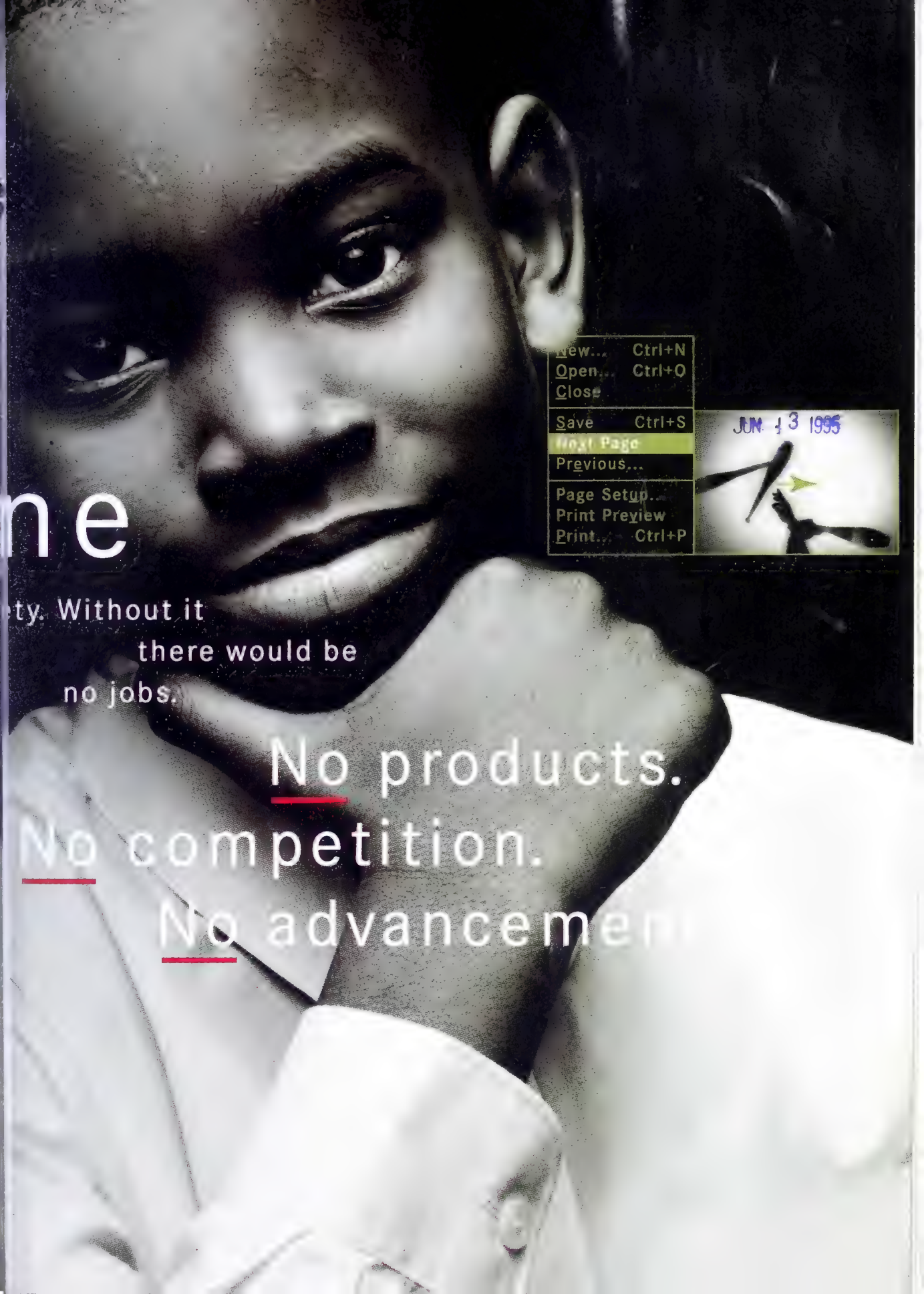
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BusinessWeek
MARCH 27, 1995

THE BUSINESS WEEK 1000

It was a good year for sales, profits, and productivity. Why didn't value rocket up? page 90

Cover Story

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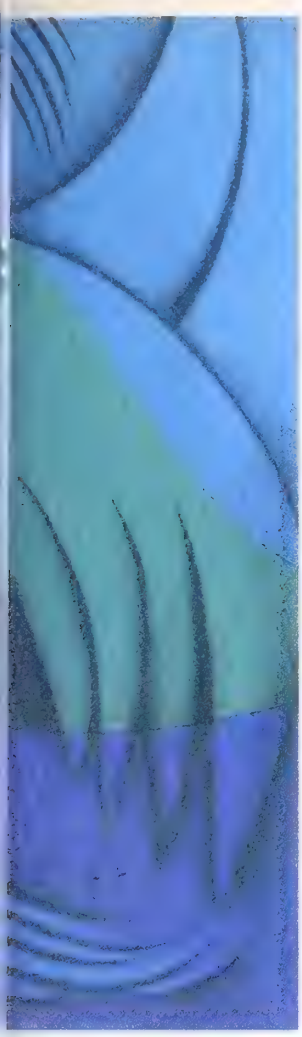

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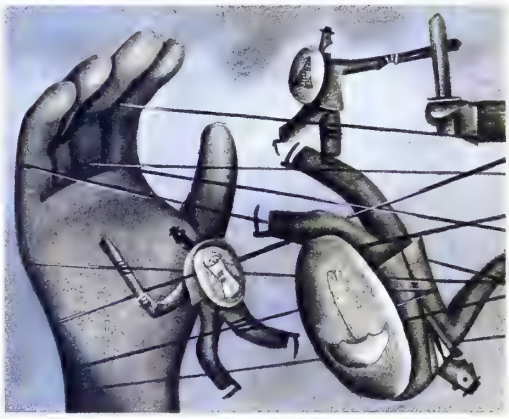

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With solid technical assistance, affirmative action can work

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUMNI SHABI

PROTECTED: *Arizona kept its choppers*

CAPITAL OFFENSES

PORK IS IN THE EYE OF THE BEHOLDER

REPUBLICANS ARE LOPPING off the pork, right? Although they loudly complained about spending habits of Democratic Congresses, the GOP's rise to power on Capitol Hill hasn't changed some things.

So far, House Republicans have pushed through trims for antipoverty programs. Surviving are nearly $2 billion in highway projects for well-connected members only, many of them Republicans. Five projects totaling $56 million are for House Transportation Committee Chairman Bud Shuster's district in Pennsylvania. Then there's Interior Appropriations Chairman Ralph Regula's $2 million Route 30 extension in central Ohio. And Democrat-basher Jim Nussle (R-Iowa), bagged a $9.4 million highway bypass for Mason City.

The GOP-led Arizona delegation gets a present: The House Appropriations national security subcommittee protected $72 million for six Apache helicopters the Army never asked for. They are built by McDonnell Douglas in the state. Appropriations Committee Chairman Bob Livingston (R-La.) saved some $38 million in home-state projects, including $15 million for a new bioenvironmental research building at his alma mater, Tulane. The Republicans vow that all the pork will go eventually. Just not now. *Richard S. Dunham*

MAD AVE

NEWT SWINGS AT 'SOCIALISTS,' MISSES

SORRY, NEWT. BOYCOTTING "socialist" newspapers is a nonstarter for advertisers. Speaker Newt Gingrich (R-Ga.) recently exhorted companies to pull ads from papers whose editorial policies they dislike. Many editorial boards, he said, contain "socialists," the "mortal enemy" of the GOP agenda.

YCOTT?
way

But this call to arms has little resonance, according to a survey by BUSINESS WEEK of a dozen or so large advertisers. None would pull ads.

Most echoed the spokesman for brewer Adolph Coors, whose controlling family is staunchly conservative: "What we're concerned about is demographics, primarily men 21 to 34." A top ad exec at Sears, the biggest U.S. newspaper advertiser, said: "With our large customer base, we can't second-guess our customers' political views." One Boston ad exec said: "If we based our decisions on 100% agreement with editorial content, our clients wouldn't advertise anywhere." *Michael Oneal*

TALK SHOW "I've got to put that stuff aside and just do my job."

—Newly named Procter & Gamble CEO John Pepper, passed over for the job in 1989 amid talk he couldn't make tough decisions

AFTERLIVES

AN OLD WAR HORSE CHARGES BILL GATES

RAY NOORDA VS. MICROSOFT, Round Two. At least that's what the former Novell CEO's new venture looks like. Before he retired last year from the network software leader that he founded, Noorda went after giant Microsoft's dominant desktop operating systems, DOS and Windows. He bought companies that produced a DOS clone and a version of the Unix operating system. Noorda's successor at Novell, Robert Frankenberg, though, has backed off that strategy.

NOORDA: *Round Two*

So Noorda, 70, recently started Caldera, which plans to piece together an operating system for desktop computers. Funded by his fami trust, the Orem (Utah) co pany is based on an operati system called Linux, deve oped in Finland. Linux available for free over th Internet, where Net surfe keep adding new features.

Caldera President Brya Sparks denies that this w compete directly with Micr soft, but he co firms that h wants to turn into a commerci program by en bling it to ru Windows applic tions. How? By a taching to Linu Microsoft's applic tions programmin interface (API), set of specific tions in the publ domain. This will allow Linu to communicate with all pr grams written for Window Noorda won't comment on h involvement with the ne company. *Richard Brand*

THE LIST BIOTECH: STILL SICK

Biotech just can't heal itself. Last fall, Fidelity Investment's Select Biotechnology Fund Manager Karen Firestone said there could be a rebound if news on nine products in development was mostly good. Well, six months later, progress has been mixed. The American Stock Exchange Biotech Index is 38% off its 1994 high. Firestone's own fund is up a solid 8% for this year, thanks to bets on such outfits as Affymax and Chiron, both bought by big drug concerns.

BLOOD COUNT: *Many failures*

BELLWETHER BIOTECHNOLOGY COMPANIES

Company	Outlook	Comment
CENTOCOR	Positive	Won approval to sell blood-clot preventer
NO. AM. VACCINE	Positive	New DTP vaccine looking good on tests
UNIVAX	Positive	Blood disorder treatment looks good
BIOGEN	Mixed	Beta interferon looks good; anticoagulant drug failed
COR	Neutral	Awaiting post-heart-attack drug data
CELLPRO	Negative	FDA questions bone-marrow treatment
CELTRIX	Negative	Eye treatment failed
TELIOS	Negative	Wound-healing product failed tests

DATA: BUSINESS WEEK

"The mantra for the long-term investor should be: stocks, stocks, stocks."

—Kiplinger's Personal Finance Magazine

An IRA is a long-term retirement investment.

If you avoid the stock market because of its current volatility, you are making a short-term decision.

Month to month, stocks go up and down. Generally, over the long term, they have produced positive returns. If you plan to retire 10, 20, or 30 years from now, it makes unquestionable financial sense to invest your IRA dollars in a Janus Fund. (Ten funds to choose from, each with a different investment goal.)

Another example of short-term thinking? Scrambling in April to find $2,000.

If you plan to contribute each year, why not start a monthly investment program that adds up to $2,000? (Or however much you want to invest.) At Janus, you can open an IRA with just $50 a month. The money is automatically transferred from your bank account or paycheck to your Janus IRA. That kind of long-term thinking makes investing simple.

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JANUS FUNDS

[$17 billion in assets]

Up Front

DRESS CODES

THE LAND OF THE RISING EYEBROW

THE NEW CASUAL DRESS CODE at IBM is no hit in Corporate Japan, where traditional business suits are expected. When Vice-President Tatsuyuki Saeki of IBM Japan appeared before the press in a sweater and slacks recently, commentators raised eyebrows. After Saeki approved relaxed sartorial rules for his personal-computer division in January, fellow IBM Japan units didn't following suit.

Ditto other companies. Casual wear, once anathema at Big Blue, is still a heresy among the Japanese, to whom appearance (*tatemae*) is paramount. "In the U.S., the blue-suit image was a drag on us," says an IBM Asia spokesman. "But here, no one ridicules the blue suit. You'd be laughing at the entire nation." Even plumbers don ties to commute, then switch to work clothes.

TOKYO: *Life yet for the old IBM image*

While at game-software companies and research centers, dressing down is accepted. But even their techies are expected to spiff up when they're out and about. A newscaster once tweaked a visiting Bill Gates by pulling up the billionaire's pants leg on camera to reveal threadbare socks and scuffed shoes. *Edith Updike*

COLLECTOMANIA

OLYMPIC PINS: ONLY 100 TO A CUSTOMER

ARE THERE TOO MANY OLYMPIC collectibles? Producers are cranking out official 1996 Olympic lapel pins, which now range in price from $5 to $100, depending on design and workmanship. Collectors fret that supply will be so abundant that the pins' cachet—and value—will sink. Gripes Donald Bigsby, president of the Olympin Collectors Club: "You can't mass-produce collectibles."

ATLANTA BAUBLE: *Mass-produced*

They blame the Atlanta Committee for the Olympic Games (ACOG) for licensing four pin companies, charging as much as $3.5 million each, then setting no cap on production numbers. High license fees, say critics, mean that the licensees must crank out the pins to make back their money. Pins have been the leading Olympic collectible item since the 1980 Lake Placid Winter Games.

But ACOG and the producers believe the demand exists for more pins, whose motifs include everything from the traditional five rings to the Olympics '96 mascot—a blob named Izzy. "We're creating collectors," says Brad Shuman, president of San Diego producer Imprinted Products. Imprinted is making 50 million pins for this Olympics—almost three times the previous record. *David Greising*

DRAWN & QUARTERED

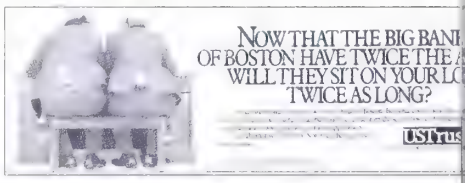
THE DEAL MILL

ONE BANK'S GIRTH IS ANOTHER'S MIRTH

IT'S DOWN AND DIRTY TIME IN the genteel world of banking. Boston-based US Trust (assets: $2 billion) has launched TV ads mocking the pending merger of Fleet and Shawmut (combined assets: $81 billion).

Now airing across New England, the ads show two overfed bankers listening to a loan applicant. The voice-over asks: "Now that they have twice the assets, will they sit on your loan twice as long?" The bench under the bankers cracks. The big bank, which will be the nation's ninth-largest, is n amused. "It doesn't perta to the way we do business a spokesman says.

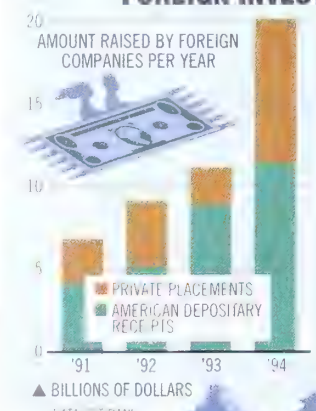
Negative ads are a rari among banks, except when new behemoth rival is forn ing. US Trust had an identic print ad in 1987 involving Bank of New England acqu sition. After Bank of Ameri and Security Pacific merge in 1992, small Redlands Fe eral Bank ran an ad about teller line so long it had sign warning that the "wa is 45 minutes from th point." *Geoffrey Smi*



BLOATED? *US Trust jousts with giants*

THE BIG PICTURE

FOREIGN INVESTMENTS BECKON



Foreign-company investments were popular among diversity-minded American investors last year. Witness the surge in American Depositary Receipts—foreign securities sold on U.S. exchanges. But the biggest increase is in private placements with American institutions following a 1990 loosening of federal regs. Most popular region in 1994 for U.S. investors: Asia. Least: Latin America.

FOOTNOTES Average number of servings of fat, oils, and sweets Americans think they eat daily: 1.96. Actual number eaten: 3.8

Jumbo shrimp.

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A STICK IS NO LONGER REQUIRED TO S

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STIR YOUR SOUL. THE M3 AUTOMATIC.

There is a popular notion (albeit misconceived) that a sports car must, by definition, contain a manual stick shift and clutch pedal.

That only the deft coordination of left foot and right hand can land you in the presence of that divinity who presides over the open road.

That anyone who would think of merely shifting into the "D" position and letting the car do the work must somehow be deprived, never having known the true joy of driving.

Needless to say, we'd like to suggest otherwise. And our reason for doing so is the new M3 Automatic. Stablemate to the car Automobile magazine honored with its 1995 Automobile of the Year award.

Indeed, there was no shortage of accolades for last year's M3. It made Car and Driver's 1995 Ten Best list, Motor Trend's ranking of the Top Ten Fun Cars and it recently won MotorWeek's Drivers' Choice Award for Best Performance Car.

In the realm of quotable praise, Eurosport Car may have said it best when they wrote, "This car would be an absolute joy to drive on a daily basis."

And here, perhaps, is one of the many pleasures of owning an automobile like the BMW M3. It is truly a car for driving every day. Whether equipped with the manual transmission Car and Driver called "effortless," or the optional 5-speed automatic.

A gear box specifically engineered to suit the high performance character of the M3, our automatic was designed to give you the feel of a manual. Shifting is crisp and immediate, without the lag you'd normally expect in such a transmission.

A simple tap of your foot on the accelerator is all that's required to experience the eager response and exhilarating quickness that have already made the M3 a legend in the automotive world.

Which brings us to its brilliant 240-horsepower, six-cylinder, DOHC power plant. Specially tuned by our Motorsport Division engineers to match ideally with the new automatic transmission, it delivers high torque at the low end, for strong pick-up at slower speeds.

An abundance of power at the high end means you can accelerate from zero to sixty miles per hour in a mere 6.9 ticks on the clock.

Equally impressive, the M3's massive, ventilated ABS brakes can have you back to zero in just under three seconds.

A firm sports suspension, variable-assist power steering and low-profile 17-inch wheels join forces with our engine/transmission package, providing a direct feel for the road like only a BMW can.

And lest you imagine all this performance arrives at the expense of comfort, be advised that the M3's interior is well appointed with amenities. A micro-filter ventilation system, powerful stereo and multi-adjusting sport seats are all standard.

The result, to put it briefly, is a driving experience you'll be hard pressed to forget.

Call 1-800-334-4BMW to learn more about the new M3 Automatic. A sports car engineered not just to move you quickly, but to move you deeply.

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Readers Report

MAYBE IT ISN'T SUCH A PARADOX

Congratulations on your excellent and thought-provoking story "The Technology Paradox" (Cover Story, Mar. 6). Your article describes market events that would be predicted by an economic theory known as "increasing returns" economics. This theory, pioneered by Stanford University professor Brian Arthur, is associated with the broader discipline of complexity theory. Increasing-returns economics predicts the seeming paradox of rational companies "giving away" new products and services. A quote from Arthur in M. Mitchell Waldrop's 1992 book, *Complexity*, describes the motive: "Once a new technology starts opening up new niches for goods and services, the people who fill those niches have every incentive to help that technology grow and prosper." The "hockey stick" growth patterns of online services described in your article have been fueled by the support of ancillary businesses (such as BUSINESS WEEK), which have an incentive to see them reach as many consumers as possible.

Moreover, increasing-returns economics also predicts that entrenched technologies are only supplanted by technologies that offer radical improvements to new adopters. Marginal improvements will not displace leading technologies that have been locked in by the sheer mass of the market for ancillary goods and services.

Timothy Breed Jenkins
Edmonds, Wash.
UWHuskyFan@aol.com

THE BUDGET AMENDMENT: WHAT HANGS IN THE BALANCE?

I, too, object to the balanced budget amendment, but for reasons that are different than those you expound in "The wrong way to balance the budget" (News: Analysis & Commentary, Mar. 6). At best, the balanced budget amendment nurtures the irresponsibilities that have led to the large debt. At worst, it seems likely, based on history, that it will allow our legislators to become even more deceptive. I hope that the recent switch to a Republican majority is but a preview of what can happen if legislators fail to make the hard but necessary choices to bring the debt down.

Gary D. Jones
Belvidere, Ill.

Quit your complaining, BUSINESS WEEK! The balanced budget amendment will accomplish what the Civil War failed to do: break up the U.S. into more logically related regions. Right now the federal government, which we all profess to hate, is a magic money machine. I put in $1, and I get back $1.20 in goods and services. A balanced budget amendment that works will change this to $1 in and $1 back. To most people, it will feel like a poorly working government.

This realization will break up coerced membership in a strong federal government and foster various "common interests" regions. For example, the South will be able to evolve into a theocracy bent on being the world's policeman. The Northeast and West Coast can evolve into efficient world merchants and the Midwest an efficient natural-resource and food supplier. Then the New World Order transformation will be complete, and the world will consist of small, natural, logical states intricately tied together in mutually beneficial associations.

Bruce Hoglund
Redstone Arsenal, Ala.

FINESSING THE STEEL SLUGFEST WITH A 'MINIGRATED' MILL

Your article "The brutal brawl ahead in steel" (Industries, Mar. 13) correctly identifies the intense competition that new flat-rolled minimills will face but it incorrectly lists Acme Metals as one of the companies building a minimill.

Our project, which will be completed in the second half of 1996, is a unique hybrid, the world's first "minigrated" steel plant. We are remaining an integrated steel producer, with all the inherent quality advantages, but we are marrying our existing integrated steelmaking operations with a significantly enhanced version of the low-cost, high-quality steel-

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If you think you can retire on Social Security, you've reached this page just in time.

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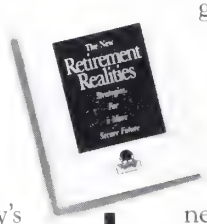

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Readers Report

CORRECTIONS & CLARIFICATIONS

"Will lasers blast through the data bottleneck?" (Developments to Watch, Feb. 20) should have identified ThermoTrex Corp., a subsidiary of Thermo Electron Corp., as the company working on ways to enable satellites to carry more data. Also, ThermoTrex says McCaw Cellular Communications Inc. is not one of the companies ThermoTrex is talking to about adding laser capabilities to their satellites.

finishing operations developed by SM Schloemann-Siemag.

Brian W. H. Marsde
Chairman & Chief Executiv
Acme Metals In
Riverdale, Il

LEVI STRAUSS IS NO HIGH-TECH LAGGARD

I am compelled to comment on "Jus get it to the stores on time" (The Corpo ration, Mar. 6). While I certainly sai the positive things about VF Corp. at tributed to me, I must protest the nega tive comments about Levi Strauss & Co

Levi has been very, very aggressive i its application of technology to bette serve our stores and our mutual custom ers. Your article unfairly impugns Lev and I want to state emphatically tha Levi is an aggressive, innovative, an highly valued supplier of ours. We consid er it a leader in retail technology.

Tom Col
President & CE
Federated Logistic
Federated Department Stores In
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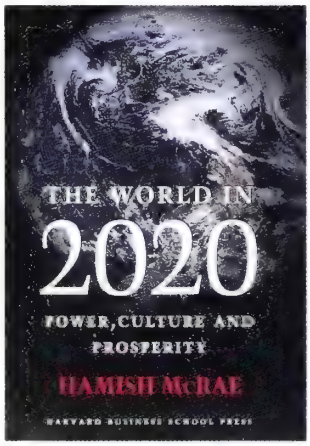
THE WORLD IN 2020
Power, Culture and Prosperity
By Hamish McRae
Harvard Business School • 302pp • $24.95

A LESS-THAN-PERFECT VISION OF 2020

With the approach of the millennium, forecasting the start of the 21st century has become a growth industry for pundits, economists, journalists, and politicians. Not surprisingly, views diverge widely. Newt Gingrich hails *Future Shock* author Alvin Toffler and his Third Wave theory of a global information society. Paul R. Krugman, an iconoclastic Stanford University economist, argues that Asia's success is overrated and scorns predictions of a "Pacific Century." This magazine, in a special issue last November, suggested a 21st century economy so networked and borderless that skilled, highly trained professionals from many nations will create a new international class.



Hamish McRae, a British journalist, now serves up a stolid, middlebrow view. McRae doesn't envision the end of the nation-state or the triumph of techno-individualism. But he does see a huge dilution of national power as economic and technological changes sweep goods and people across borders and subsume the political class into loose regional government confederations with limited authority to direct or correct change.

In McRae's vision, there will still be three major spheres of influence: North America, Europe, and Japan with Asia. But by 2020, China will be emerging as a superpower, challenging America for economic dominance. North America and Europe, moreover, will be suffering from stagnating living standards and social deterioration great enough to threaten the fabric of civil society.

Families will bear the brunt of this change. Marriage will give way to "consensual union" in the more liberal European states; in other countries, it will serve mainly as a temporary contract for child rearing. Anger about crime, security, and education will be even greater than it is now. The U.S. will have completed the transition to a truly multicultural nation heavily influenced by Latin and Asian cultures.

McRae is best in connecting social progress with economic gains. Enduring prosperity, he argues, requires not just healthy growth but "societies which are stable, ordered and honest." For developed and developing countries, meshing these goals will be difficult.

Nowhere is this connection more important than in East Asia and China, where today per capita income, gross national product, the balance of payments, and the exchange rate are revered measures of achievement, while individual rights, ending corruption, and free speech are ignored in the quest for growth. Critics such as Stanford's Krugman say even Asia's spectacular growth is suspect because it was achieved simply by using more people to make things rather than by making production more efficient.

McRae doesn't go that far, but he does predict that East Asia, China, and Japan face traumatic adjustments. First, Asia's vaunted manufacturing prowess will become less valuable as productivity gains make labor less of a factor, so Asia will have to become better at exporting services. Second, Asia's ability to innovate rather than copy will be sorely tested. Finally, Asian governments will have to replace command systems for economic change with market solutions and institute legal reforms to protect property and diminish corruption. To make such changes, McRae says, Asia's high flyers will incur stiff social and economic costs.

On the other hand, if China can incorporate Hong Kong and Taiwan into a federation of semi-independent states and if Japan can pay for its aging society, both will be strong rivals to North America—politically as well as economically. While the U.S. will remain the world's undisputed technological and creative leader, it will be struggling to balance its cherished individualism against the fraying social order. "Put bluntly... people will have to behave better," McRae asserts, or a populist backlash in which voters impose social values is likely.

What's wrong with this picture? First, McRae doesn't reach ahead far enough. Backlash against social decay and the welfare state is today's issue, not the next century's. Moreover, his analysis is so historical that it may be of little use in predicting how the information revolution and a global market revolution will reorder work and life.

Second, McRae all but ignores what many consider the future's two most powerful scientific forces—information technology and gene management. Free information offers the possibility of uniting the worlds of work, leisure, and culture in ways no one has clearly envisioned. Gene tracing may allow us to preempt many diseases and dramatically manage population growth, fundamentally altering social trends.

Finally, McRae's reporting is stunningly thin. Most of this book draws from officialdom—studies by the World Bank and Organization for Economic Cooperation & Development, along with a few bigwig interviews—when a stroll through a science lab at Shanghai University might have yielded far richer insights. As the past two decades have shown, the official consensus, whether overestimating Russia or vilifying Japan, is usually wrong.

In fairness, McRae never suggests that with *2020* he is out to replace *Future Shock*. So if you're ready for a low voltage guide to what lies ahead, consider this book safe to bring home.

BY ROBERT J. DOWLING

Dowling oversees BUSINESS WEEK'S *international coverage.*

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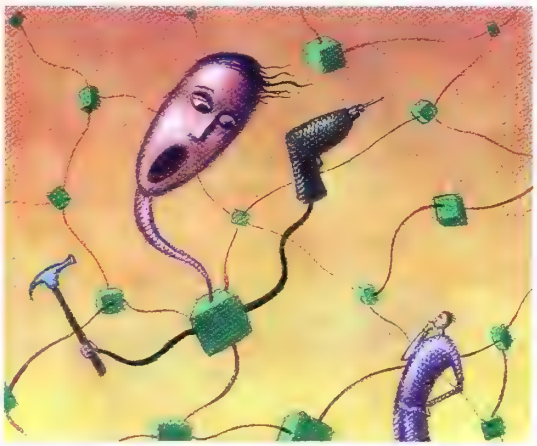
BY STEPHEN H. WILDSTROM

COMPAQ'S BRAVE NEW NETWORK

You come into the office one fine morning, flip on your computer, and, after a few seconds, the baleful message appears on the screen: "No boot device available." Your hard disk is dead. You don't need to be a computer whiz to know at once that you face a difficult chore moving some data to safety and restoring or reconstructing the rest.

What if your computer, sensing that the drive was on the verge of failing, could warn you—and automatically copy the data into a network file server or onto tape? What if a rise in your PC's internal temperature could alert tech support that there was a blocked fan vent before the heat had a chance to damage your machine or your data?



ON THE BALL. Some new machines from Compaq Computer Corp. hold promise to perform such feats as part of their ability to diagnose how a network functions. The result will be a giant step toward safer and cheaper computing. Compaq's Deskpro models (800 888-5858) represent the company's effort to consider market data and consumer preferences in designing and pricing machines (BW—Mar. 20). In addition to providing disaster prevention, these office computers offer better tools for managing the hardware and software on networks. Simply letting system managers know what features and software are on a network's computers can save big bucks (BW—Mar. 6).

The Deskpros have been designed around the new reality that a corporate computer is a networked computer. Compaq estimates that 70% of business computers worldwide will be networked by next year. Deskpros come ready to plug into an Ethernet (or, optionally, an IBM Token Ring) network, with no interface cards to install or configure.

Once computers are on the network, it only makes sense to use the network to manage them better. Software companies such as Symantec, Cheyenne Software, and Frye Computer Systems have been offering network-management tools for some time, and Compaq has integrated these well-tested tools into the Deskpros. Among other things, these programs have the capability to maintain a database of machine serial numbers and configurations and can monitor the use of software. A number of hardware enhancements by Compaq make these tools work even better. Fault-reporting hard drives were developed in cooperation with three leading disk manufacturers: Conner Peripherals, Seagate Technology, and Quantum.

Although Deskpro's analytics are designed mainly to help administrators, they can benefit users in ways beyond anticipating hard-drive problems. For example, if a certain program isn't working right on your computer, a network administrator can find out, without a trek to your office, whether the problem is due to outdated system software—and can then update the software. The result: faster and less disruptive service.

The trick for Compaq will be persuading corporate purchasing departments to get a new perspective. The pricing should help. For example, a Deskpro 575 with a 75-megahertz Pentium processor will retail for about $2,150. A Pro-Linea 575, virtually identical except for the lack of a built-in network interface and management tools, sells for just $150 less.

Compaq is saying that spending a little more up front will mean big savings over the life of the machine. Gartner Group Inc., a consulting firm, estimates that service and support help push the cost of a networked PC to roughly $40,000 over five years. Compaq says that the new Deskpros will knock about $10,000 off the total lifetime cost.

If corporations accept that argument, they'll beat a path to Compaq's Houston headquarters. And competitors such as IBM and Hewlett-Packard Co. will move quickly to match the technology. That could mean that Compaq's corporate edge may be short-lived—but computer users can't lose.

BULLETIN BOARD

CD-ROM UPDATE

A SEVEN-DISK MODEL

The CD players in your house and car may feature changers that handle 5 to 10 disks. So why settle for a measly single-disk CD-ROM on your PC? If you really want access to gobs of data, Mountain Network Solutions Inc. (800 458-0300) offers the CD7, a sev-

en-disk CD-ROM unit with a retail price of less than $500. The device works with Windows, DOS, and Macintosh desktop computers or Novell NetWare file servers. It also comes with Windows software that makes it easier to keep track of the multiple disks and to select the active CD-ROM from among them. In addition to its obvious use on a network, the CD7 would be helpful to users who rely on multiple CD-ROM reference works or image collections.

OPERATING SYSTEMS

THE FINAL DOS UPGRADE?

Tired of waiting for Windows 95 and not ready for the leap to OS/2 Warp? In what may be the last-ever upgrade of trusty old DOS, IBM's PC-DOS 7 is now available. Improvements include a version of Stac Electronics' Stacker disk-compression software, enhanced memory management, and better support for multiple hardware configurations on laptop computers. The street price is around $55 for users upgrading from earlier versions of IBM or Microsoft DOS.

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/ PAUL CRAIG ROBERTS

A SOCIAL SECURITY SYSTEM THAT'S PUTTING AMERICA'S TO SHAME

'RIVATE BET hile wagered hat its private ension ystem would eepen capital arkets and timulate rowth. It won

l Craig Roberts is John M. Olin ow of the Institute for Political nomy and Distinguished Fellow of Cato Institute in Washington, D.C.

Latin American countries were once considered economically backward compared with the U.S. and incapable of sound economic management. Today, despite Mexico's currency problem, this is less and less the case. Chile, for example, has done much better than the U.S. in reining in an exploding public sector. Chile, an economic basket case in 1973, was by 1981 able to privatize its failing pay-as-you-go social security retirement system, which was projecting the kind of large future deficits America's will face early in the next century.

Chile decided to take the bull by the horns and face the deficits up front in order to rapidly phase out the state system. Since 1981, all new entrants into the labor force have been required to contribute 10% (with up to another 10% optional) of their monthly gross earnings to private pension fund accounts that they own. Everyone else was given the option of leaving the state system, except for existing retirees and those within a few years of retirement. Workers who left the state system were bought out with "recognition bonds," deposited in their private pension accounts and redeemed at retirement, for their past payments into the system.

In the first month, some 25% of Chilean workers transferred to the private system. Today, about 93% of the labor force is enrolled in 20 separate and competing private pension funds. The reform has boosted Chile's domestic savings rate to 26% of gross domestic product. Chile's economic growth rate averaged 5.4% annually between 1984 and 1992. With annual real returns on pension investments averaging 13% from 1981 to 1993, Chileans are beginning to retire with generous pensions.

A STAKE IN SUCCESS. The future benefit obligations of the state system shrank dramatically as employees transferred to the private system. But current revenues also collapsed with the abolition of the payroll retirement tax. General revenues, boosted by privatizations of state companies, are used to pay benefits under the old system. The Chilean reformers wagered that the private pension system would greatly deepen the country's capital market and stimulate economic growth, thereby generating a larger tax base to help redeem the recognition bonds as their staggered maturities come due.

With no new entrants into the state system, it will automatically terminate as current retirees pass away. Barring an explosion in spending or a decline in confidence that would threaten the government's ability to redeem recognition bonds, Chile has succeeded in replacing a job-killing employment tax with job-creating private investment, while simultaneously boosting retirement incomes and personal wealth. More important, now that practically every Chilean has an ownership stake in the economy's success, politicians have taken a more responsible approach to economic policy.

The privatization of Chile's social security system was not without political drama. Just as the American Association of Retired Persons (AARP) is a vested interest standing in the way of reform in the U.S., many Chilean interest groups had their hooks in the state social security system and did not want to let go. Labor union leaders saw an opportunity in the reform to grab the power to make the investment allocation of their members' pension contributions, thus collecting "commissions" or extracting bribes from pension fund managers. In October, 1980, 30 union leaders cornered Labor Minister José Pinera in an effort to hijack the reform. Pinera's wit prevailed when he told the union bosses that he could not in good conscience expose them to temptations that would threaten the salvation of their souls.

Unlike the Chilean reformers, American politicians have played fast and loose with Social Security, causing citizens to believe that their contributions are invested in a genuine trust fund. In truth, the revenues are commingled with general revenues and spent as fast as they come in. The Social Security Trust Fund is a deceptive artifact, containing government IOUs that can be redeemed only by cutting spending, raising taxes, or issuing more public debt.

Americans would be incomparably better off under a privatized system such as Chile's. In a paper to be published by the Cato Institute, William G. Shipman of State Street Global Advisors in Boston shows that Americans would receive many multiples of their Social Security benefits if their payroll taxes were invested in the stock and bond markets. Social Security not only cheats retirees but also cheats the country out of needed savings and investment. It is a sacred cow that we can no longer afford.

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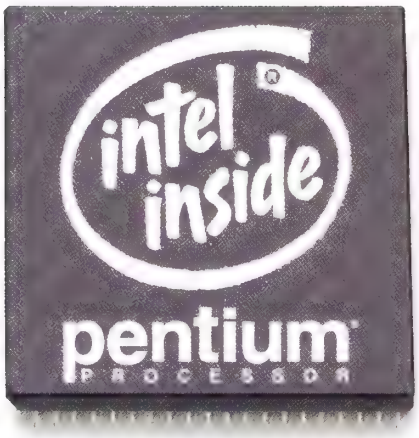

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BY GENE KORETZ

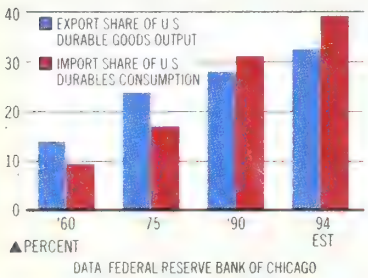
THE COSTS OF A GYRATING DOLLAR

Price pressures may soon appear

How seriously will the dollar's recent gyrations affect the U.S. economy in the months ahead? According to some observers, less than you might think. They point out that imports accounted for only 12¢ of every dollar spent in the U.S. last year and that the take from exports was even less.

Jack L. Hervey of the Federal Reserve Bank of Chicago observes, however, that such broad comparisons are misleading. In the manufacturing sector of the economy, trade flows now play a critical role, influencing both output and inflation. Exports of U.S. goods as a percentage of domestic output of goods measured in 1987 dollars, for example, have jumped from 8% in 1960 to 24% last year. In the same period, the import share of total goods consumed in the U.S. surged from 6% to 28%. In the case of durable goods (chart), one finds that a third of such goods produced in the U.S. are now exported, while imports have captured nearly 40% of the domestic durable-goods market.

WHERE TRADE COUNTS IN THE U.S. ECONOMY



DATA: FEDERAL RESERVE BANK OF CHICAGO

Despite these trends, Wall Street seems to be shrugging off the dollar's recent rise against the peso and the Canadian dollar and its decline against the yen and the mark. Lower dollar prices of imports from Mexico and Canada are evidently expected to offset higher tabs for European and Japanese goods, while stronger demand for U.S. goods in Europe will make up for diminished demand in the Western hemisphere.

Economists at Chemical Securities Inc. disagree. They note that much of U.S. trade with Canada and Mexico is in dollar-denominated goods—either raw materials or items that are exported in semifinished form (autos and *maquiladora* products) and then shipped back to the U.S. Thus, they claim, the decline of the Canadian dollar and the peso will offer little relief from inflationary impulses resulting from the dollar's weakness.

At the same time, more demand for U.S. products in Japan and Germany will be a mixed blessing, says L. Douglas Lee of NatWest Washington Analysis. That's because many U.S. exporters to those nations, in industries such as information technology and instruments, are already at full capacity. "Both on the import and the export side," says Lee, "the falling dollar is likely to generate inflationary pressures."

A MALPRACTICE CONUNDRUM

Actually, too few claims are filed

One issue often neglected in the debate over medical malpractice insurance is the system's efficiency in compensating injured patients. The most exhaustive look at this issue is a recent study of 31,000 hospital admissions in New York State by a Harvard University team headed by Paul Weiler, Howard Hiatt, and Joseph Newhouse. Its findings: Some 4% of admissions involved treatment-caused injuries. One-fourth of the injuries involved negligence. One-seventh resulted in death.

On average, only one malpractice claim was filed for every 7.5 patients suffering a negligent injury, and only half of these were ultimately paid. So, "the legal system is paying just 1 malpractice claim for every 15 torts inflicted in hospitals." Those suffering nonnegligent injuries—that is, caused by care not yet deemed inappropriate—got nothing. Thus, the study concludes that rather than a surplus, there is a litigation deficit because so many injured people wind up uncompensated.

Weiler says the current proposed $250,000 cap on malpractice awards is a "dreadful remedy for the problems of the system, which would penalize those suffering the worst injuries." He advocates a "no-fault" enterprise-based insurance system. Under such a setup, hospitals or provider organizations rather than individual doctors would purchase insurance, and patients could seek compensation for any medically caused injury without having to prove negligence (thus obviating the need for costly and lengthy legal proceedings).

CURSE OF THE STOCK ISSUERS?

More shares can be a bad bet

When publicly traded companies decide to raise capital by offering additional shares to the market, the offerings are often snapped up by investors. Nonetheless, a new study indicates that such stocks fare relatively poorly in the years following their issue.

In an analysis of stock movements from 1970 to 1990, economists Tim Loughran of the University of Iowa and Jay R. Ritter of the University of Illinois found that the stocks of some 2,680 companies issuing additional shares produced average annual returns of 7% in the five years after the offerings. By contrast, shares of similarly capitalized nonissuing companies produced average annual returns of 15.3% a year.

Why the difference? The researchers note that companies typically decide to issue added shares after posting a marked improvement in their performance, and the markets tend to be overly impressed by such improvements. In other words, the sellers expect to get a good deal, and they usually do—to the detriment of myopic investors.

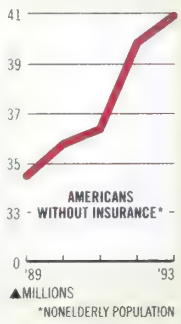
THE HEALTH-CARE GAP WIDENS

More Americans go uninsured

Health reform has temporarily disappeared from the political radar screen, but public opinion polls indicate it remains Americans' No. 1 concern. Based on an analysis of the latest data, the Employee Benefits Research Institute reports that 18.1% of the nonelderly, or 40.9 million people, lacked health insurance of any kind in 1993—up from 16.1%, or 34.4 million, in 1989.

Some 85% of uninsured people lived in families that were headed by workers, most of whom worked year-round. Since 1989, the percentage of the nonelderly enjoying employer coverage has fallen from 65.9% to 60.8%.

LAGGING IN HEALTH COVERAGE



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Steve Archibeta
Director, Systems for Mass Markets Service Delivery
U S WEST, Phoenix

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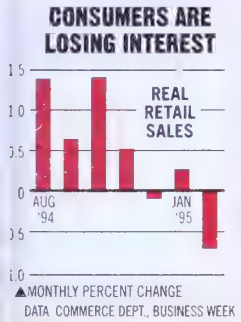
BY JAMES C. COOPER & KATHLEEN MADIGAN

A COLD SHOULDER FROM SHOPPERS IS CREATING A CHILL

U.S. ECONOMY

Spring is in the air. But just as the weather is warming p, the economy is showing clear signs of cooling own. Through February, retail sales have posted hree shaky readings in a row. The factory sector is urrendering some of its momentum. And the job ıarkets are losing their oomph.



The big debate right now is: How much is growth tapering off, and will the slowdown continue? So far, a sudden shyness among consumers is the main reason for the economy's paler cast, as higher interest rates take their toll on demand (chart). But the outlook for the other third of the economy, especially capital spending and exports, emains largely undimmed.

The data's softer, noninflationary tone has delighted Vall Street. That, plus the evidence of moderating rowth found in the Federal Reserve's latest regional conomic survey, almost assures that the Fed will esıew another rate hike at its Mar. 28 policy meeting. he prospect that Fed policy is on hold has pushed the eld on the benchmark 30-year Treasury bond to below 4%, the lowest in nine months. And stocks continue to rengthen, even as the dollar remains weak.

HE FIRST-QUARTER DROP-OFF in the pace of conımer spending looks especially sharp. Retail sales unged 0.5% in February, the first decline in 10 onths. And even though the January gain was revised om 0.2% to 0.6%, sales so far in the quarter, adjusted r inflation, have not grown at all from their fourthıarter level. Keep in mind, though, that the monthly les data are quite volatile and subject to big revisions, ıd Commerce will make an annual revision on Mar. 20.

Although the recent dip in consumer demand probly exaggerates the underlying trend, the slower pace spending is likely to continue. That's because job owth for this business cycle has peaked. Even with ebruary's strong 318,000 rise in payrolls, monthly job ıins have averaged 282,000 during the past six onths, down from 333,000 in the previous six months. Moreover, initial jobless claims have been trending gher since last fall. During the first week in March, e four-week average of claims rose to 340,000, the ghest in seven months.

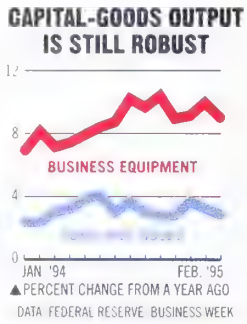
It follows that income growth also will slow, which will continue to moderate the trend in consumer spending. Households are increasingly dependent upon income gains to finance purchases, since their use of credit is subsiding in the wake of last year's borrowing binge, and higher interest rates are placing greater demands on their incomes.

Sales declines in credit-sensitive goods accounted for much of the drop in February retail sales, but the weakness was widespread. Not only did cars, furniture, and building materials each post sales losses, purchases of nondurable goods also fell, with an especially steep decline in apparel.

THE SOFTNESS in consumer buying is working its way back to the manufacturing sector. Industrial production at factories, utilities, and mines rose 0.5% in February, pushed up by a surge in utility output as winter weather returned to normal.

Factory output alone increased only 0.4%, after a 0.2% gain in January. That's well below the average monthly rise of 0.9% during the fourth quarter. Strains on capacity also have eased a bit since December. The factory operating rate remained at 85.1% in February, a tick below December's level.

Although a rate that high is usually associated with building price pressures, producer prices of finished goods remain tame. The producer price index rose 0.3% in February, the same as in January, and excluding energy and food, the core PPI also increased 0.3% in February. The only sign of faster-rising prices is in intermediate and crude materials, but most businesses are having little success in passing those increases forward.



Not surprisingly, the slowdown in industrial output mostly shows up in consumer goods, especially furniture, appliances, and clothing—the same items that consumers left in retail stores in February. However, output of capital goods remains robust (chart), reflecting both the ongoing boom in equipment spending at home and continued strength in demand abroad.

With consumer demand losing steam at a faster pace than output, some businesses are holding more inventory than they want. Inventories in manufacturing, wholesaling, and retailing jumped 0.9% in January, though

sales rose only 0.1%. The biggest problem is cars. Auto dealers' stocks surged 3.2% amid flagging sales. In response, carmakers have announced cuts in their second-quarter production schedules.

Rising inventories will add to economic growth in the first quarter, but that kind of strength won't lead the Fed to hike rates. If demand fails to perk up, excessive inventories will slow output further, and retailers will have to cut prices to move merchandise.

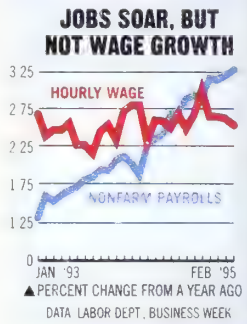
THE FEBRUARY JOB NUMBERS also argue against another rate increase. The report was a mirror image of the data in January. Back then, the top-line number looked weak, but the details showed continued strength. In February, just the opposite was true: The big job gain blew the doors off most expectations, while the jobless rate fell back to 5.4%, from 5.7%. But all of the underlying numbers were more subdued.

Factory jobs last month rose just 27,000 after gains of more than 40,000 in each of the previous four months. Hours worked fell 24 minutes, to 34.5 hours in February, and the factory workweek slipped from 42.2 hours, to 42.1 hours.

Taken together, the January and February reports suggest that the labor markets are starting to look a bit cooler. So far in the quarter, overall hours worked—the combined effect of jobs and the workweek—are rising at an annual rate of only 2.8%. That pace is down from 5.1% in the fourth quarter. Most important, a shorter workweek usually precedes less hiring.

Moreover, job growth in February was more narrow than in January. The percentage of industries that added workers fell to 57.9% last month, from 62.4% in January. The Labor Dept. said many of the new jobs were in temporary employment, computer services and recreation, as more normal temperatures in February boosted hiring at ski resorts.

What especially heartened the financial markets was the news that, despite the strong hiring, wage growth hardly budged (chart). The average nonfarm wage was flat in February, at $11.31 per hour. And with hours down, average weekly pay fell more than $4.50, to $390.20. Slimmer February paychecks may well be part of the story behind the month's drop in retail sales.



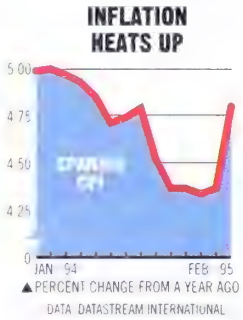
Although consumer spending seems to be gliding down to a more sustainable pace, the key to a successful soft landing for the economy may lie in how much the rest of the economy slows. But in the first quarter at least, the downshift by consumers looks to be sharp enough to offset the gains by other sectors.

SPAIN

THE STRENGTH BENEATH SPAIN'S STRUGGLE

You would never know it by looking at Spain's battered financial markets, but under all the currency turmoil and political scandal lies an economy that is recovering briskly from its worst recession in 30 years.

Real gross domestic product rose at an annual rate of 3.1% in the fourth quarter, the fastest pace of the year. Growth is also becoming more self-sustaining, as its composition shifts from exports to domestic demand. Capital spending is strengthening, as rising industrial output and capacity use bolsters profits. Consumer spending is also a bit perkier but still muffled by wage restraints and subdued consumer confidence that likely reflects job insecurity. Overall, the economy grew 2% in 1994, and analysts expect about 3% in 1995.

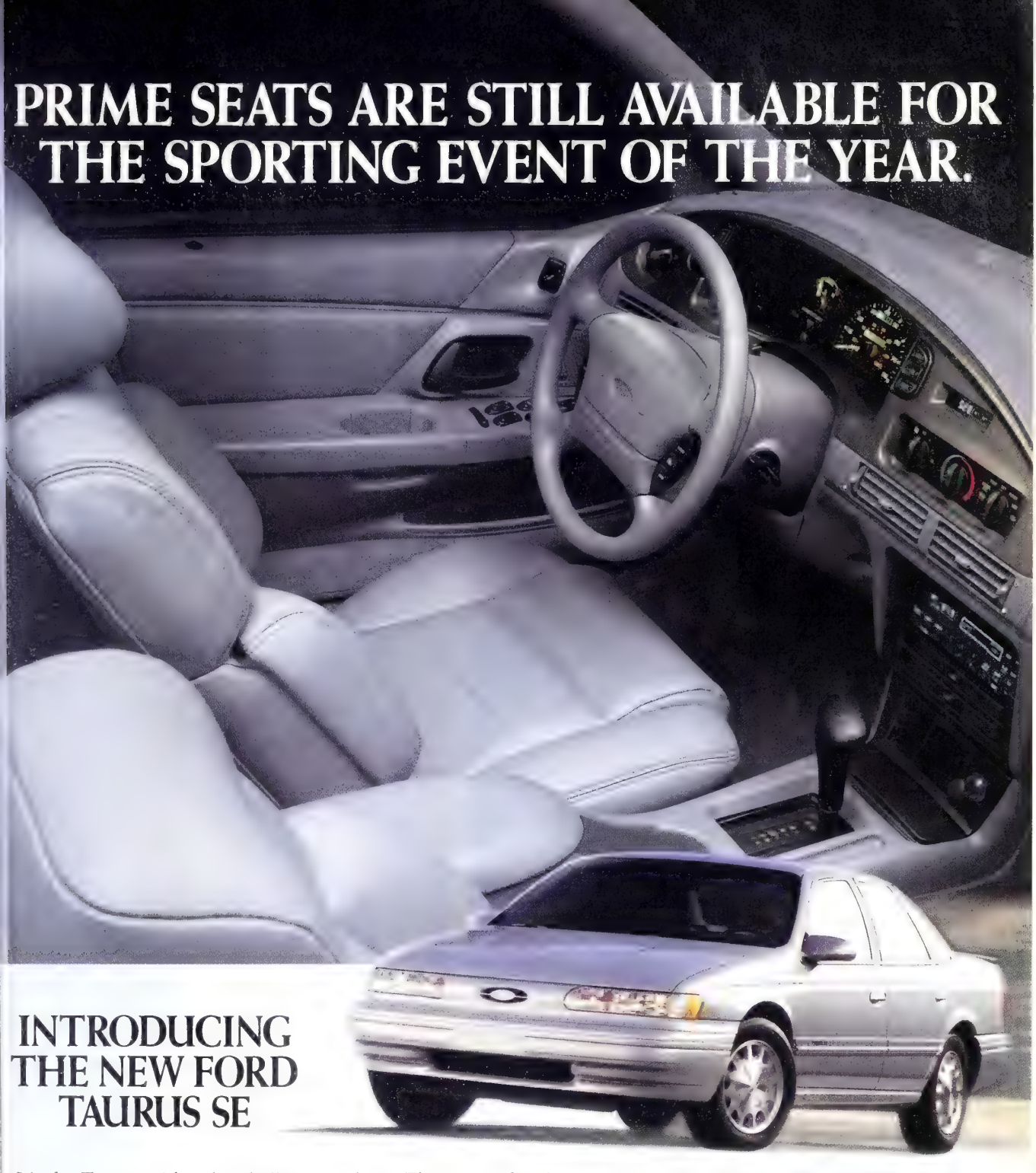


The problem is Spain's lack of needed fiscal reform, made harder by the scandal that has weakened both the government of Prime Minister Felipe Gonzales and the peseta. Spain devalued its currency by 7% vs. the mark on Mar. 6, setting a new, lower boundary of 98.79 pesetas per mark within Europe's exchange-rate mechanism. Cutting the fiscal deficit from 5.9% of GDP in '94 to 4.4% in '95, as called for by the European Union's convergence plan, will be difficult. Welfare—which accounts for 35% of public spending—is growing by 12% per year, but the ruling Socialists may oppose cuts, leaving the peseta vulnerable to further weakness.

That leaves tighter monetary policy as the only means to defend the peseta and stave off inflation. January producer prices rose 5.8% from a year ago, the fastest rate in nine years. February consumer inflation jumped to 4.8%, after hitting a 25-year low of 4.3% in 1994, and the government estimates that the devaluation will add 0.57 percentage points to 1995 inflation.

The Bank of Spain hiked official rates by half a point on Mar. 14, to 8.5%, and more increases totaling an additional percentage point seem likely. The problem: Higher interest rates could choke off domestic demand just as exports begin to wane.

PRIME SEATS ARE STILL AVAILABLE FOR THE SPORTING EVENT OF THE YEAR.



INTRODUCING THE NEW FORD TAURUS SE

It's the Taurus with a decidedly porty edge. Taurus SE's cast luminum wheels, new clear lens eadlamps and available spoiler ıake a serious statement of style.

Inside, the SE has a long list of river-friendly touches. Even air onditioning comes standard. And, f course, Taurus SE also gives you ıe added safety of standard dual air ags* and available anti-lock brakes.

But the SE's news doesn't end there. There's a refined powertrain that delivers an especially smooth performance from the computer-controlled V-6 engine. And when it comes to value, Taurus performs equally as well, as a better value than its leading competition.**

FORD'S ROADSIDE ASSISTANCE†

Help is only a toll-free call away if you or your family should have a flat tire, get locked out or simply run out of gas.

The new Taurus SE. Sit back, relax and enjoy the sporting event of the season.

*Always wear your safety belt. **Based on MSRP comparison of base Taurus vs. the leading sellers in its class. †3 years/36,000 miles. See dealer for details.

HAVE YOU DRIVEN A FORD LATELY?

Ford

EXECUTIVE PAY

DELIVER —OR ELSE

Pay-for-performance is making an impact on CEO paychecks

It still may be difficult to work up much sympathy for anyone who gets paid a million or two a year. And in 1995, without question, U. S. chief executives will bring home more money than ever before. But finally, corner-office denizens are starting to learn a lesson: When they fail to deliver the goods for shareholders, their own paychecks will suffer.

There could be no starker evidence than that contained in Bankers Trust New York Corp.'s proxy statement. Stung by a host of derivatives debacles, Chairman Charles S. Sanford Jr. saw his pay package fall by 57%, to $3.95 million, in 1994. The reason: Bankers Trust' stock languished in the market, as return-on-equity was sliced nearly in half, to 13.5% last year.

Or take Salomon Brothers Inc. Chairman Deryck C. Maughan. In 1994, he got a mere $1 million, an 87% drop in pay, after the investment banking firm posted a pretax loss of $963 million in 1994, the worst year in its 84-year history. Salomon's lackluster performance was due to large trading losses and a dramatic falloff in business volume.

NAME GAME. Then there's Quaker Oats Co. CEO William D. Smithburg. He had an 11% decline in salary and bonus, to $1.4 million, after his company's stock fell by 13%, weighed down by its $1.7 billion acquisition of Snapple Beverage Inc.

After years of resisting pressure from shareholders on excessive pay, Corporate America finally is linking CEO compensation to corporate performance. Directors are scrutinizing pay plans as never before, in the wake of better disclosure guidelines by the Securities & Exchange Commission and of widespread public criticism of executive largesse. "Many chief executives have lost control of their compensation committees," says Michael L. Davis, a pay consultant with Towers Perrin. "Once directors had to put their names on a statement justifying pay packages in the proxy, they began to take their jobs more seriously."

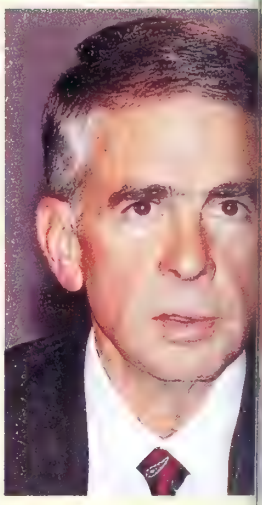
Even the most acerbic critic of excessive executive pay, Graef "Bud" Crystal, whose course for MBAs at the University of California at Berkeley is nicknamed Greed 259A, has become surprisingly sanguine about the issue. In an analysis of CEO pay in 1993, he found that 48.5% of annual compensation could be explained by shareholder returns, company size, and the sensitivity of the CEO's pay package to stock price and dividends. Such factors related to just 42.8% of pay variations a year earlier. "The market for CEO pay is becoming more rational," Crystal says.

Which isn't to say that CEO pay won't continue to go up—way up. With corporate profits overall showing a stunning 34% gain last year (page 90), the pay numbers tumbling out of proxies are

EARLY RETURNS ON 1994 SALARIES

How some top CEOs did last year

*Fisher started at Kodak in December 1993

	Rewarded	
		
	LOUIS GERSTNER	ROBERT ALLE
	IBM	AT&T
1994 SALARY & BONUS ▶	$12.40 million	$5.49 millio
CHANGE 1993 ▶	+34%	+38%
1994 STOCK PERFORMANCE ▶	+30.1%	–4.3%

More diligent boards are using cash bonuses to send chief executives a message

etting higher and higher. "We've con-
nced ourselves that since CEO pay is
ore performance-based, everything is
pacetic," says Alan Johnson, who
eads up Johnson Associates Inc., a
mpensation consultant. "But I'm
ocked at some of the levels of pay
it there."

The new criteria reward executives
ho deliver higher returns to share-
lders and larger profits on the income
atement. IBM Chairman Louis V.
erstner Jr.'s salary and bonus jumped
67%, to $4.6 million, last year—not
cluding an extra $7.8 million payout to
ver the value of stock options he gave
at RJR Nabisco Inc., his former em-
oyer. IBM stock rose 30%, to 73½ from
½, during 1993, and has since jumped
81½. Gerstner is widely credited for
turnaround that produced IBM's first
ofitable year since 1990.

Much of the volatility in pay is show-
up in annual cash bonuses. Not long
, most companies set bonus targets
t triggered payouts equal to 50% to
% of base salary. "Now we're seeing
companies where the bonuses to CEOs
can be 200% or more of salary," says
Geoff A. Wiegman, who heads the com-
pensation practice at Buck Consultants
Inc. "With shareholders decreeing that
pay should be more performance-based,
boards are putting a lot more leverage
in bonuses."

AT&T's Robert E. Allen last year got a
cash bonus of $2.3 million—roughly
200% of his $1.1 million base salary. A
year earlier, Allen's bonus was $1.4 mil-
lion, and his salary was an even $1 mil-
lion. AT&T says that 77% of Allen's total
compensation package now is directly
linked to performance measures. Allen's
paycheck was bigger because his com-
pany's profits climbed 27%, and he also
met customer- and employee-satisfac-
tion goals. TRW Inc. Chairman Joseph
T. Gorman won a $1.13 million bonus, up
from $661,000, based on a flexible for-
mula involving profit, cash flow, return
on assets, and other measures.

The leverage works on the downside
as well. Take Bankers Trust's Sanford.
His cash bonus last year fell to only
$7,100, from more than $3 million in
1993. Don't weep too hard, however.
Sanford did pick up $2.1 million in re-
stricted stock vs. none in 1993.

"DECISIVE." Such strict criteria are by
no means universal. General Electric
Co. Chairman Jack Welch won a 10%
pay increase, to $4.35 million in salary
and bonus, even though his company's
stock fell 2.9%. Directors rewarded the
boss for "decisive management of op-
erational and strategic issues," according
to the company's proxy. Eastman Kodak
Co.'s George Fisher received a $1.8 mil-
lion bonus, 80% higher than the amount
guaranteed him, even though the com-
pany conceded profits were below tar-
get. The reason: He exceeded revenue
and cash-flow goals.

Now, though, senior executives, are
finding that they are under more pres-
sure than ever to align their interests
with those of shareholders—specifical-
ly, by investing in their companies'
stock. IBM recently adopted new owner-
ship guidelines that require its senior
executives to own company stock equal

Punished

ACK WELCH	GEORGE FISHER	CHARLES SANFORD	DERYCK MAUGHAN
ERAL ELECTRIC	EASTMAN KODAK	BANKERS TRUST	SALOMON
.35 million	$5.96 million	$3.95 million	$1 million
+10%	NA*	–57%	–87%
–2.9%	+6.1%	–29.9%	–21.1%

to two to four times their base salary, depending on their position. They would have five years to meet that goal. A new executive-pay plan at Kodak, which already requires its executives to own stock, gives the board discretion to pay some or all of future bonuses with awards of the company's stock.

These plans clearly put top execs' wealth at risk. Indeed, Crystal has discovered that some chief executives, such as Wal-Mart's David D. Glass and The Limited's Leslie H. Wexner, essentially worked for nothing in 1993 because the declines in the value of their investments were greater than their total pay packages for the year. His study found that from the 105 companies whose stock fell in 1993, 58 of their CEOs actually "lost money" because their holdings lost more value than they were paid.

Forward then, into the heart of the CEO-pay season. The numbers are likely to be just as eye-popping as ever. But shareholders can at least take some solace in knowing that the phrase pay-for-performance may finally mean something real.

By John A. Byrne in New York, with bureau reports

AT PHILIP MORRIS, BLUE CHIPS FOR BLUE COLLARS

First, executives got it. Then middle managers got in on the action. Now, it's factory workers' turn to get stock as part of their pay.

On Mar. 15, 7,800 tobacco workers at Philip Morris Cos. ratified new labor pacts that give them stock in lieu of pay hikes during the next two years. The novel trade-off is part of a larger trend by companies to tie pay to company performance. And while it leaves Philip Morris workers less certain about how much they'll make, union leaders plan to pursue the concept at other companies. "It's a gamble, but it's one we're willing to take," says Steven Spain, the chief negotiator for the International Association of Machinists (IAM).

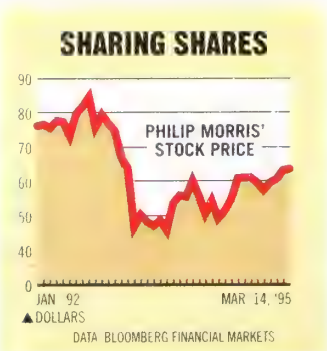
ROLLIN': *Workers are taking stock in lieu of raises*

Philip Morris isn't the first employer to give shares to workers. Many have employee stock-ownership plans or offer company stock in their 401(k) retirement plans. But these schemes are designed to encourage ownership or savings. Usually, workers can't withdraw the stock until they retire or leave the company. And the shares aren't counted as part of current income, so employees pay no taxes until they receive them.

"NEW LEVEL." Other companies have set up stock-option plans for workers. For instance, last month Bristol-Myers Squibb Co. gave employees a one-time chance to buy 200 shares at a set price. And Southwest Airlines Co.'s pilots recently agreed to take options instead of pay hikes. But, says Corey Rosen, head of the National Center for Employee Ownership: "Philip Morris is taking the idea of risk-sharing with employees to a new level."

Indeed, Rosen and other experts believe that Philip Morris is the first company to make stock part of its workers' take-home pay. The tobacco giant's pact with the IAM—one of nine unions that have signed off on the plan—gives 94 shares to each of the union's 1,200 workers. They also get a 2% wage hike in 1997. Employees can elect to take the stock after 12 or 24 months. In the interim, employees can't sell or vote their shares. And they lose them altogether if they quit or are fired before the period expires.

Employees won't know how much of a raise this amounts to until they get their hands on the stock. Philip Morris was trading at $60 when the pact was agreed to on Feb. 15, and its dividend is $3.30. The total amounts to $6,260 after two years, or about 6% a year for IAM members, who average $24 an hour. The share price already has jumped to $63—though that's still far from its 1992 peak of $86. The union is betting that it will rise 5% to 7% a year—though workers acknowledge that if it tanks, they lose. "I think it's worth [the risk]," says Tom W. Preston, an electrician at Philip Morris' Richmond (Va.) plant. "If the stock takes a real downturn, then I'll have more problems than just my raise."



DRAWBACK. The other catch is taxes. The company will subtract all federal and state taxes employees owe on the date they ask for the stock. So if an employee cashes in after a year, Philip Morris will multiply 94 shares times the stock price on Mar. 15, 1996. It will withhold the taxes due on that amount and give the employee the number of shares that the remaining sum will purchase. The union thinks this will be about 60 shares. The employee then can keep the stock or sell it and take the money.

The deal is good for Philip Morris. Employees' base pay won't rise. Nor will benefits, such as pension and life insurance, which are tied to annual wages and total 29% of pay. And current stockholders' shares won't be diluted, since workers probably will get less than 500,000 shares out of 850 million outstanding.

Will the idea spread? If it does, factory hands soon may be watching the wire as closely as anyone in the executive suite.

By Aaron Bernstein in New York

FOR REYNOLDS, WHERE THERE'S SMOKELESS...

Manville lawsuit could stub out the Eclipse cigarette

t's just a "misunderstanding," says R. J. Reynolds Tobacco Co. Manville Corp. won't even discuss the matter. oth companies say they want to settle ıeir dispute—but quietly.

Behind all the smoke is a lawsuit that ɔints to a big problem for tobacco comanies: Increasingly, given the prospect liability litigation, suppliers don't want ı do business with them. What's more, [anville's lawsuit seeking to establish ıat it had no contract with Reynolds, ed Mar. 6 in a Denver federal court, ıreatens to derail RJR's "smokeless" clipse cigarette, a key new product.

Three years ago, according to the ıit, Manville's Schuller International ıc. subsidiary agreed that it would supy Reynolds with glass fibers for develɔment of new cigarettes. Reynolds was sting a product that would heat tobacı rather than actually burn it. That garette, called Eclipse internally, was ·en as a way to defuse health ıncerns by virtually eliminating ·condhand smoke.

Late last year, Manville's board ·ew nervous about the Reynolds ·ntract, says Ronald L. Motley, an torney who monitors Manville ı behalf of plaintiffs in asbestoslated claims against the compa- and also represents plaintiffs tobacco claims. Directors atched as Kimberly-Clark Corp., hich supplies paper and reconstituted bacco to a number of cigarette compaes, was named in a suit filed by the ate of West Virginia seeking to rever Medicaid money spent on treating ıokers. "The Manville board decided ey didn't want any part in marketg cigarettes," Motley says.

ARM BELLS. Manville executives and rectors won't comment. But technical perts say Manville has reason to be rvous. Some scientists suspect that glass fibers, used to insulate Eclipse's re heating element (diagram), may be ngerous if inhaled. In cigarettes such Eclipse, the risk could be compoundby the presence of other toxins such tar and carbon monoxide.

Neil F. Johnson, supervisor of the ɔlecular & Cellular Toxicology Group the Inhalation Toxicology Research stitute, believes that, at 0.00925 milliɜter wide, the fibers found in Eclipse obably are too large to migrate to the lungs, though they could cause throat or skin irritation. A greater threat, he says, is the public perception that fibers are hazardous. "I don't think it's very wise from a toxicological point of view," Johnson says. "And I don't think it's very wise from a marketing point of view."

Reynolds says there's no cause for alarm. Company officials won't discuss the specifics of Eclipse, but "we are not going to ever use in our cigarettes a product that was respirable," says a spokeswoman. If glass fibers were used, she says, the cigarette's heat likely would fuse them together.

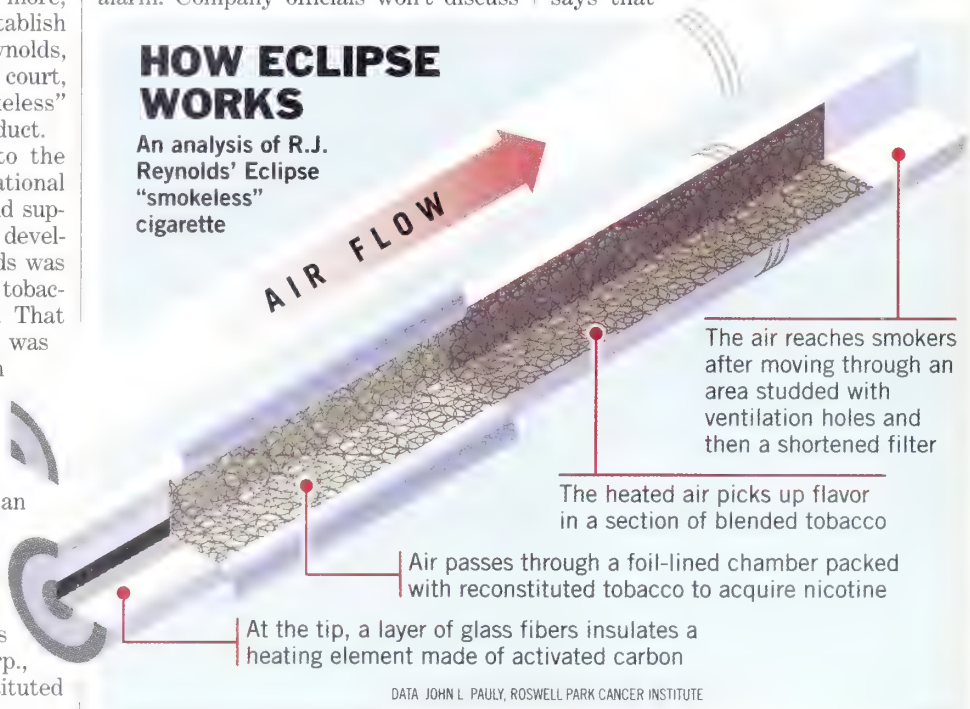
But rival Philip Morris Cos. has conceded concerns about using fiberglass in cigarettes. In September, 1994, filing a patent for its own new low-smoke technology, the company admitted that "glass fibers may become dislodged during shipping and migrate through the pack to rest on the mouth end of the [cigarette], giving rise to the potential for the inhalation of glass fibers."

KEY ITEM. Manville's pullout could be a big blow to Reynolds. The tobacco company still is trying to bounce back from Premier, its first attempt to market a smokeless cigarette. The $300 million new product was recalled when smokers balked at its taste. Eclipse and related products are supposed to broaden Reynolds' revenue base away from Winston, Camel, and other traditional brands that are dogged by legal and public-relations challenges. The company says that it still is testing low-smoke cigarettes.

John F. Pauly, a researcher at Roswell Park Cancer Institute who has analyzed Eclipse samples, says glass fiber is a key component. "It could be difficult to find a good insulator that's cheap and poses no health problems," he says. "These are high-tech devices. These are not just tobacco wrapped in paper."

And Manville's suit could be the first of many by suppliers seeking to exit contracts with tobacco companies. Tobacco litigation is heating up across the nation, and for the first time, cigarette makers—and their contractors—look vulnerable. That's why Pfizer Inc., for instance, plans to highlight in its first-quarter earnings statement a policy that prohibits units from doing business with Big Tobacco and its suppliers. Tobacco soon could become a very lonely field.

By Maria Mallory in Atlanta



DATA: JOHN L. PAULY, ROSWELL PARK CANCER INSTITUTE

The prospect of litigation may have suppliers avoiding tobacco companies

BLINDSIDED? Nicandros (left) professed shock at McLarty's veto. But the White House and Congress have been moving to increase Iran's isolation

OIL

WHY DIDN'T CONOCO SEE THIS ONE COMING?

Washington's signals on Iran may have been too subtle

It was over in 20 minutes. On Mar. 10, Conoco Inc. Chief Executive Constantine S. Nicandros had rushed to Washington hoping to assuage White House officials and salvage a $1 billion Iranian oil deal that had been made public five days before. But Senior Presidential Adviser Thomas F. McLarty III wasn't won over. In a terse meeting, he bluntly delivered the Administration line: Any deal with Iran was unacceptable.

Nicandros flew back to Houston the next day in shock. McLarty's curt dismissal was followed by an announcement on Mar. 14 that President Clinton would sign an Executive Order canceling Conoco's plans. The next day, he did so. Three years of negotiations with Iran and the promise of becoming the first U.S. company with an Iranian development contract since the 1979 Islamic revolution had vaporized.

INTRACTABLE. Insiders at Conoco and its parent, DuPont Co., blamed the collapse on Iran's premature announcement of the deal, which came a day after the agreement was signed but before Conoco could secure the approval of DuPont's board of directors and the State Dept. "Iran blew it.... When they announced, they blindsided DuPont, Conoco, and the White House," says a company official close to the deal.

Yet the dramatic breakdown also appears to have followed a subtle shift in U.S. policy. A year after the Administration suggested that Iranian behavior could be modified by international pressure, says one analyst, it has come to view Iran as an intractable "rogue." The country's links to recent terrorist bombings in Britain and Argentina and continued opposition to Middle East peace proposals forced a turn in U.S. posture, say observers. "If this [deal] had happened in November, it might have been all right," says an analyst.

Conoco either never recognized the shift or misread its implications, gambling that its venture, which was not illegal, would not be stopped. Not once, say Conoco and DuPont officials, had the company been specifically warned off its talks with Iran—despite 20 company briefings to State Dept. officials. And even as the fur or rose, the company continued to insist that it had acted properly. The deal Nicandros thought had been constructed carefully with a Dutch subsidiary to skirt U.S. rules—even proposing to accept payment, say industry insiders, in gas delivered to Dubai, a friendly emirate.

An Energy Dept. spokesman insists the company should have known better. "This policy should not have taken any U.S. firm by surprise," says William White, Deputy Energy Secretary. While current rules ban imports of Iranian products, American oil companies are permitted to buy and sell Iranian oil outside the U.S. Conoco's deal would have significantly altered the economic picture. Iran wants to increase production to 5 million barrels of oil a day from about 3.6 million.

"BOTH EYES OPEN." The immediate worry in the U.S.: Conoco's development of offshore reserves would help Iran attract new capital and bolster its sagging economy—a scenario the U.S. opposes. The Administration's view of the deal was that Conoco would be going beyond acting as a trader. The deal "would dangerously add to [Iran's] economic capacity to do the things that we find objectionable in the world community," says White House spokesman Michael D. McCurry.

Nicandros, 61, has run Conoco for the past eight years and worked for the company since 1957. He led Conoco into such troubled areas as Russia and Somalia, but DuPont insiders say the highly respected executive is no cowboy. "I suspect Nicandros was extremely careful in his steps and didn't try to pull a fast one," says one. Indeed, says Thomas O'Connor, principal petroleum engineer at the World Bank: "I can't imagine Conoco going into Iran without both eyes open."

At the same time, though, Nicar

ROCKY OIL PATCH

DATA: COMPANY REPORTS

ros may have been misreading the ap-
etite of DuPont's board for his initia-
ve. According to insiders, Nicandros, a
uPont vice-chairman and board mem-
er, brought a broad outline of the deal
directors on Mar. 1—just days be-
re terms were agreed to in Teheran
y Conoco and the National Iranian Oil
o. A spokesman insists the deal was
ntingent upon approval by the Du-
ont board and Iranian officials.

At the board meeting, there was dis-
ssion but no decision taken. Indeed,
e project met resistance from board
embers, including Edgar Bronfman
., whose family controls 24% of
uPont's stock. Even DuPont Chair-
an Edgar S. Woolard Jr. was noncom-
ittal, assuring the board that the pres-
tation was only informational. While
icandros clearly was backing the pro-
sal, he did not seek immediate ap-
oval. Recalls an insider: "It was made
ear this was not a vote. We didn't
ve all the details."

ISBELIEF. By now, perhaps, they wish
at they had. As a result of the
onoco deal, the State Dept. is consid-
ing tightening policies toward Ira-
an oil. And Conoco Vice-President J.
ichael Stinson, who directed the talks
ith Iran, was to appear on Capitol
ill on Mar. 16 to explain the compa-
y's actions. The furor has helped give
ew impetus to a bill sponsored by
.S. Senator Alfonse M. D'Amato (R-
.Y.) that would ban all trade with
an.

In the oil patch, Clinton's Executive
rder was greeted with disbelief. U.S.
l giants are being welcomed back in
untries such as Kuwait, where they've
en outcasts for years. And with the
dministration fighting Europe to keep
e international embargo on Iraqi oil,
t Iranian, "there was a general sense
the industry that the Conoco project
ould not finally be in trouble," says
y Gallagher, a senior exploration ana-
st at oil industry adviser Petrocon-
ltants Inc.

Should the meltdown really have
me as such a surprise to Conoco?
ith the signs obvious that the Admin-
ration and Congress were moving to-
ard increased isolation of Iran, some
d it hard to accept that Conoco was
indsided. "They were told repeatedly
at large projects like this present a
al problem for us," says a White
ouse official. But the blowup points
the need for clear U.S. foreign poli-
es toward troublesome oil-producing
ates—especially now that Big Oil is
ing welcomed back where it used to
persona non grata.

By Gary McWilliams in Houston,
th Joseph Weber in Philadelphia and
san Garland in Washington

CLINTON MAY BE PLAYING A RISKY GAME OF SOLITAIRE

Executive orders sidestep the GOP. But if things go wrong...

No one would confuse Bill Clinton's scattershot White House with Richard M. Nixon's Imperial Presidency. But after months of hibernation following his party's November pasting, Clinton has discovered a potent weapon, one often brandished by Presidents to bypass an opposition-controlled Congress: executive fiat.

Clinton's Mar. 15 order to block Conoco Inc.'s Iranian oil deal is the latest unilateral Presidential initiative. On Jan. 31, the Clintonites agreed to prop up Mexico's tumbling peso by raiding a fund to stabilize the dollar—despite legal questions brought up by Federal Reserve Chairman Alan Greenspan and others. And on Mar. 8, Clinton prohibited federal contractors from permanently replacing striking workers. Coming after similar legislation was rejected by the last two Congresses, the order will give labor a tremendous boost, even while it infuriated Republicans. House Majority Leader Richard K. Armey (R-Tex.) blasted the action as a sign of "executive-branch arrogance."

Arrogance maybe. But the GOP won't be able to check Clinton's orders often. Indeed, in their first attempt to reverse the President, Senate GOPers on Mar. 15 fell one vote short of repealing the striker-replacement order.

TELLING CONGRESS TO DROP DEAD

1793 NEUTRALITY PROCLAMATION Washington announces neutrality in the war between England and France.

1863 EMANCIPATION PROCLAMATION Lincoln frees slaves. Two years later, the 13th Amendment bars slavery.

1942 EXECUTIVE ORDER 9066 Roosevelt interns Japanese-Americans. The Supreme Court backs him.

1952 EXECUTIVE ORDER 10340 Truman seizes the steel mills; he is later overturned by the Supreme Court.

1995 EXECUTIVE ORDER 12954 Clinton bars most federal contractors from hiring permanent replacements.

With few exceptions, moreover, the courts have been loath to curb the broad authority granted the executive branch. Besides, Administration officials insist that they are careful not to overstep the legal bounds. "We make sure we're operating on safe and precedented ground," says White House Counsel Abner J. Mikva. For instance, Walter E. Dellinger III, head of the Justice Dept.'s Office of Legal Counsel, notes that under U.S. procurement laws, Clinton's order on striker replacements was "the kind of condition the President can place on contracting." Nonetheless, on Mar. 15 business groups challenged the move in court, claiming it violates their rights under labor laws.

The Lone Ranger approach has other pitfalls. While Clinton has a strong enough Senate minority to counter most efforts to overturn his edicts, "when things go wrong, it's Clinton who will have egg on his face," notes the Congressional Research Service's Louis Fisher, a separation-of-powers expert.

And if the President moves too forcefully into the twilight zone where the executive and legislative branches share power, the GOP could punish him

by stalling nominations and curbing his spending ability. That could damage both sides. "The American people want things to happen," says Stephen Hess, a Brookings Institution Presidential scholar. "If it's another form of gridlock, they all go down."

Despite the risk, Clinton in the future is likely to opt for more solo governing. Experts particularly expect more moves—like the striker-replacement order—intended to shore up the crumbling Democratic voter base. And if the GOP hands Clinton the line-item veto, as the Contract With America promises, his hand will be further strengthened.

But over the long haul, government-by-fiat may not turn out to be a sound strategy. It invites "those who oppose you to overturn you," says Roger B. Porter, a veteran of three GOP White Houses. If Clinton overreaches, even congressional Democrats could end up feeling undercut. The result: Partisan loyalties could yield to turf fights, creating stunning defeats for Clinton. It's a threat the White House ignores at its peril.

By Stan Crock in Washington

PICKET LINES? JUST CALL 1-800-STRIKEBREAKER

When 14,000 members of the United Auto Workers (UAW) walked off the job at Caterpillar Inc. last June, management wanted to keep the plants running anyway. To do so, the heavy-equipment maker needed replacements fast.

It didn't have to look far. These days, replacement workers—brought in to do the jobs of striking workers—are readily available from a slew of temporary-help agencies trying to turn an extra buck. Worldwide Labor Support in Pascagoula, Miss., has provided Cat with up to 225 welders and technicians. Manufacturing Technical Search Inc. in Westchester, Ill., and Strom Engineering Corp., a temporary-employment company in Minnetonka, Minn., have also supplied Caterpillar. Some replacement-worker sources are more familiar—and surprising: McDonnell-Douglas Corp. says it has supplied Cat with workers—even though it has 8,000 UAW members of its own. Sources close to Cat say the workers are machinists helping the company weather its strike.

BUSED IN: *Outside staff helped in the Caterpillar stoppage*

HUMMING ALONG. Development of a national pool of replacement workers gives union employers a powerful new weapon against labor. Rather than shut down and rely on piled-up inventory to get through a walkout, employers can turn to strikebreaker outfits to keep production lines humming. Supplying replacements remains controversial: Manpower Inc., the nation's largest temp agency, shuns the practice. And employers often put up with hefty sacrifices in cost and quality, caused by the turnover in temps who camp out in motels far from home. Still, the practice is shifting "the balance of power even further to management," says Harley Shaiken, a labor economist at the University of California at Berkeley.

The ease with which employers can find replacements is having an effect on some strikes. Bridgestone/Firestone Inc. has used workers supplied by Defender Services Inc. in Columbia, S. C., during an eight-month strike by the rubber workers union. With limited in-house resources to handle such situations, "you use whatever you can," says a Bridgestone spokesman. Indeed, the strikebreaker business now is so sophisticated that some agencies have built up national databases of workers. Denver's U. S. Nursing Corp., which supplies medical staff to hospitals coping with strikes, says it has 5,000 names on tap.

> Some temp-help agencies make a specialty of replacement workers

A national pool of ready workers is also having an effect on labor talks. For instance, after Deere & Co. saw that Caterpillar could operate despite a walkout, it took a tough line in negotiations with the UAW. The union was so afraid of losing jobs that it remained at work for four months rather than strike. On Mar. 5, it gave in to many of Deere's demands. "We were worried that they had hired the same temp firms that Caterpillar is using," says one UAW official. But Deere says this wasn't the case.

Providing employers with strikebreakers, of course, is far from a risk-free undertaking. Manpower President Mitchell S. Fromstein says his agency hasn't gotten into the business, partly because doing so could "put our employees' safety at risk." And President Clinton's Mar. 8 executive order barring big employers that hire permanent replacements from obtaining any federal contracts may put a crimp in the business—though probably not a big one. Shipping in replacement workers is just too potent a weapon against union picket lines.

By Kevin Kelly in Chicago

1 in a series

Macintosh Compatibility

The benefit of technology is not technology.

don't care about hunks of hardware,

modem speeds

or which plug goes where.

Computers should work together.

Period.

That's the price of entry.

When computers work together,

people work together.

Information doesn't circle around

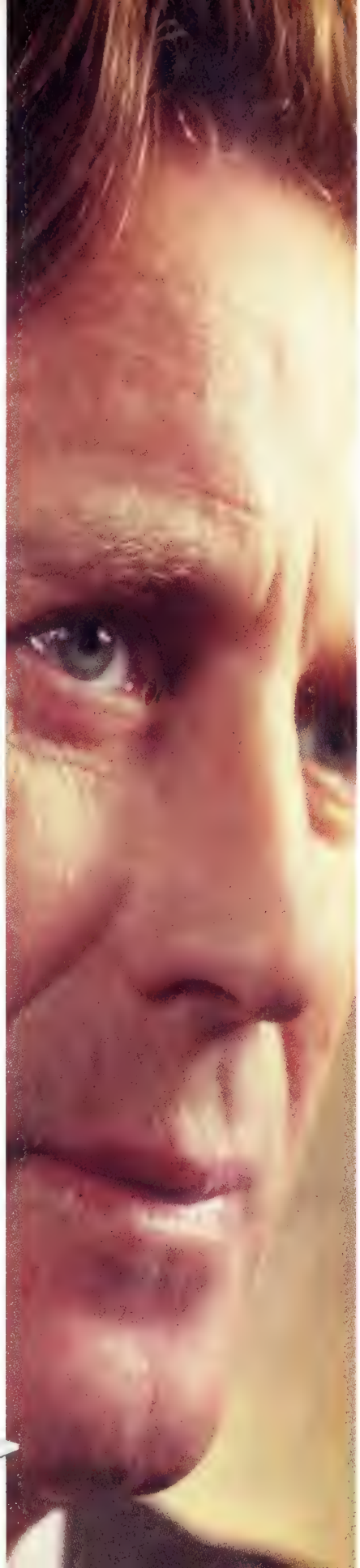
error commands;

it flows.

It's not just about what the

computers can do.

It's about what the people can do.



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Macintosh: the computer that stands out. At the heart of Power Macintosh beats the revolutionary RISC-based PowerPC microprocessor. It's so fast, in fact, that in tests performed by Ingram Labs, the Power Macintosh 8100/110 was on average 45% faster overall than the fastest Pentium PC tested.** Providing the horsepower needed to do real-time videoconferencing, sophisticated multimedia and other emerging technologies. The kind of horsepower that moved *PC Week* to recently write, "The speed of the PowerPC processor, coupled with Windows compatibility, is a compelling reason for some customers to move from a PC to a Macintosh platform."

Macintosh: the computer with the competitive edge. In a study by Arthur D. Little, Macintosh users completed a set of business computing tasks in 44% less time than a comparable group of PC users running Windows took to do the same tasks.* So companies adopting Power Macintosh computers for real benefits today will also find they have a competitive edge tomorrow, translated into lower training and support costs as well as the ability to do jobs in-house that were once farmed out. Since Apple has always been a leader in the development of sound, graphics, animation and video, advanced technologies such as multimedia and 3-D graphics are easier to do on a Mac. And since we're committed to compatibility with multiple computing environments, the benefits of Macintosh can extend throughout any company.

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Apple

INVESTIGATIONS

THE WATCHDOG WHO BARKED AT HILLARY

Volunteering CFTC files may cost the top commodities cop his job

By all accounts, Dennis A. Klejna is a model government watchdog. For 12 years, he has been enforcement chief for the Commodity Futures Trading Commission. Among his plaudits: a Distinguished Presidential Rank Award for exemplary performance.

So how come Klejna is being eased out of his job? On Mar. 8, senior CFTC officials urged him to accept a transfer to the agency's New York regional office. The CFTC says the move is part of a planned reorganization. But more may be involved. CFTC officials repeatedly have changed their explanations of Klejna's demotion. And BUSINESS WEEK has learned that the shift came after a Democratic CFTC commissioner with White House ties discovered that Klejna had offered to help the Whitewater special prosecutor look into First Lady Hillary Rodham Clinton's controversial commodities trades.

Last spring, Klejna volunteered CFTC information to then Independent Counsel Robert B. Fiske Jr. Within days, he told Commissioner Barbara P. Holum, at the time the CFTC's acting head, about his offer. A prominent Democratic fundraiser and longtime Clinton friend, Holum was furious and set out to oust Klejna as a "traitor," says a source close to internal CFTC discussions.

CONTRADICTIONS. Holum confirms that Klejna came to her last April. But she denies discussing the matter with the White House or trying to dump Klejna. "I never made an issue of this," she says. And BUSINESS WEEK has no evidence of White House meddling. But if Klejna's removal was an act of political retribution, it could be another blow to an Administration already deep in ethics woes.

Republicans are eager to paint the incident as political interference with an independent regulatory agency. On Mar. 15, Senator Lauch Faircloth (R-N.C.), a member of the Senate Banking Committee, met with CFTC Chairman Mary L. Schapiro and Klejna. Faircloth says he remains suspicious of political motives in Klejna's transfer and will seek a Senate investigation. "I fully intend to determine if the White House was involved in an attempt to remove Dennis Klejna," he says. An Administration spokesman strongly denies any White House involvement.

Klejna is reluctant to blame the affair on partisan politics.

KLEJNA'S CHRONOLOGY

EARLY APRIL, 1994 Dennis Klejna approaches the Whitewater special counsel offering to help in the investigation of Hillary Rodham Clinton's controversial commodities trading.

MID-APRIL, 1994 Klejna tells Barbara Holum, acting CFTC chair, of his action. A CFTC source says she reacts angrily.

MAR. 3, 1995 After denying two days earlier that Klejna is on his way out, new CFTC chair Mary Schapiro confirms that Klejna may be transferred to a new job.

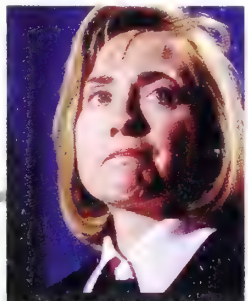
MAR. 8, 1995 Klejna is offered a transfer to the agency's Manhattan regional office.

"Everyone around here says it's not true," he shrugs. "I don't want to disagree." He adds, though, that he may refuse the transfer.

For her part, Schapiro says her only aim is to bolster the agency. Four months ago, as a new chairman, she ordered a review of the CFTC's enforcement actions under Klejna, who presides over 145 CFTC enforcement cops nationwide. The study, Schapiro says, persuaded her to dispatch him to shake up the underperforming 80-person Manhattan office. "I've never had any contact with the White House or anyone else" on this, she adds. "The suggestion that this was politically motivated is ludicrous."

But a source close to the CFTC claims Holum and Schapiro openly discussed Holum's desire to force Klejna out of his Washington job. Holum contradicts Schapiro's denial that the two discussed the issue, saying they did so on Feb. 17.

Moreover, Schapiro has twice changed her account of the matter in responding to BUSINESS WEEK. On Mar. 1, for instance, she denied that Klejna was being relieved of his duties. But the next day, BUSINESS WEEK learned that Herbert F. Janick III, a former Securities & Exchange Commission enforcement attorney, was up for Klejna's job and was already house-hunting in Washington. Schapiro then conceded she had urged Janick and others to apply for Klejna's job "if it opened up." Janick, now deputy general counsel at PaineWebber Group Inc. in New York, confirms that Schapiro discussed the job with him weeks before.



HILLARY: *Another potential imbroglio*

"APOLITICAL PERSON." More puzzling is the CFTC's response to BUSINESS WEEK's questions about whether Klejna had called the Whitewater prosecutor. Initially, Schapiro denied any contact. But after receiving a Mar. 8 letter from Faircloth asking about Klejna's status, she said she had just learned from her enforcement chief that he had gone to Fiske. Klejna had offered technical advice on how to obtain crucial trade documents from Refco Inc., the Chicago brokerage that helped the First Lady turn a $1,000 stake into a $99,537 return between 1978 and 1980. Schapiro and Klejna now say they misunderstood BUSINESS WEEK's earlier questions and did not intend to mislead.

Schapiro, a political independent who was appointed by GOP Presidents Reagan and Bush to the SEC, counters the accusations of partisan interference by asserting: "I'm an apolitical person." But Faircloth maintains that a deeper probe is needed. For the White House, that's a position that's becoming distressingly familiar.

By Michael Schroeder and Douglas Harbrecht in Washington

The GOP would love to present this as a case of White House political meddling with an independent agency

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COMPUTERS

GOOD INSTINCTS AT INTUIT

Its tax software was faulty, but its damage control was superb

Bruce Beasley doesn't fancy himself a consumer crusader. "I'm no Ralph Nader," he says bluntly. But when the 50-year-old Oakland (Calif.) sculptor stumbled upon a serious glitch in MacInTax, a version of the TurboTax package for the Macintosh, he complained to the program's developer, Intuit Inc. When the company brushed him off, he got angry enough to take his story to the *San Francisco Chronicle*—a phone call that helped ignite a national firestorm of controversy.

Shortly after the *Chronicle*'s Mar. 1 exposé appeared, a "deeply distressed" Scott D. Cook, Intuit's chairman, confessed that his company's line of tax software contained a number of bugs that could produce inaccurate calculations (table). With customers already surly over problems with Intuit's customer-service lines and its stock languishing on investor worries about Microsoft Corp.'s planned acquisition of the company, Cook moved quickly, offering to replace disks on request for Intuit's 1.65 million customers—despite estimates that the problems affect fewer than 1% of them. Block Financial Software Inc., makers of TaxCut, similarly offered its own "patch disk" several days later, when reports of problems with that package surfaced.

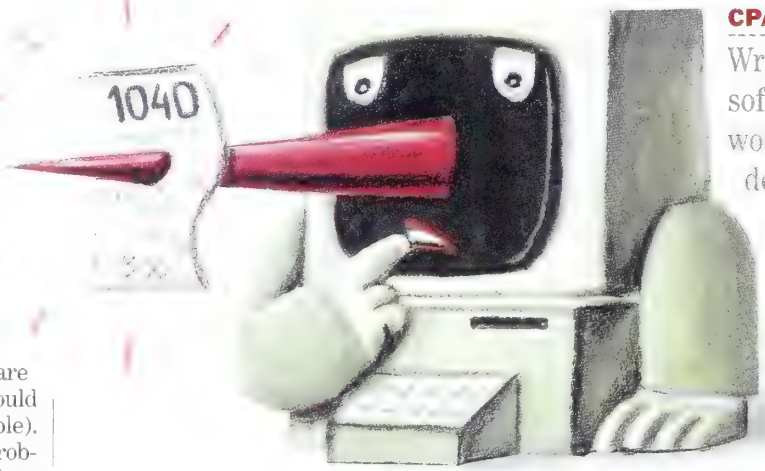
OVERBLOWN? The errors are no small problem—particularly to consumers who already have used the programs to prepare their taxes. Yet fears that the glitches would cause the burgeoning market for tax-preparation software to dry up overnight—and trigger massive liabilities for its developers—now appear to be overblown. CompUSA Inc. and Egghead Inc., two big software retailers, each report that sales of tax programs have remained robust. "It's been business as usual, which has been surprising," says Egghead buyer Jane Dunning.

How did the two companies emerge from the fiasco unscathed—or at least relatively so? Industry experts say that such bugs are inevitable in tax software. The reason: Programmers spend months or even years developing and refining products such as spreadsheets or databases. But, to reach retailers in time for tax season, the makers of tax software must quickly update the code for their products between October and January—the period during which the Internal Revenue Service discloses the latest changes in the law.

That leaves little time for the preliminary testing that could spot most problems. While Microsoft Corp., for instance, is expected to mail testers more than 400,000 "final beta" copies of its forthcoming Windows 95 program, Intuit and Block must rely largely on their own staffs for feedback. "I don't know of any other product developed under these kind of constraints," says Jeffrey Tarter, editor of *Soft Letter*, an industry newsletter. "It's a miracle there aren't any more bugs."

Management experts say that Intuit's aggressive response to the problems helped defuse a potentially disastrous situation. "The public loves a confessed sinner," notes William Bluestein of Forrester Research Inc. Along with the replacement offer, Cook penned an apology in a letter to the product's registered users: "We really let our customers down," he wrote.

And Intuit isn't hassling those customers who are demanding refunds. Indeed, Intuit has been so trusting that callers to its 800 phone lines aren't even required to provide proof of purchase. And it posted corrected versions of its tax programs on commercial online services, making them available to people who hadn't even purchased the original program.



CPAs-ON-A-DISK

Writers of tax software often work on tight deadlines, and breakdowns in quality may be inevitable

Tax Bugs

TURBOTAX

- Miscalculates 1995 estimated tax payments and income derived solely from disability payments
- Creates errors in deductions for business use of a car purchased in 1994
- Miscalculates asset depreciation

TAXCUT

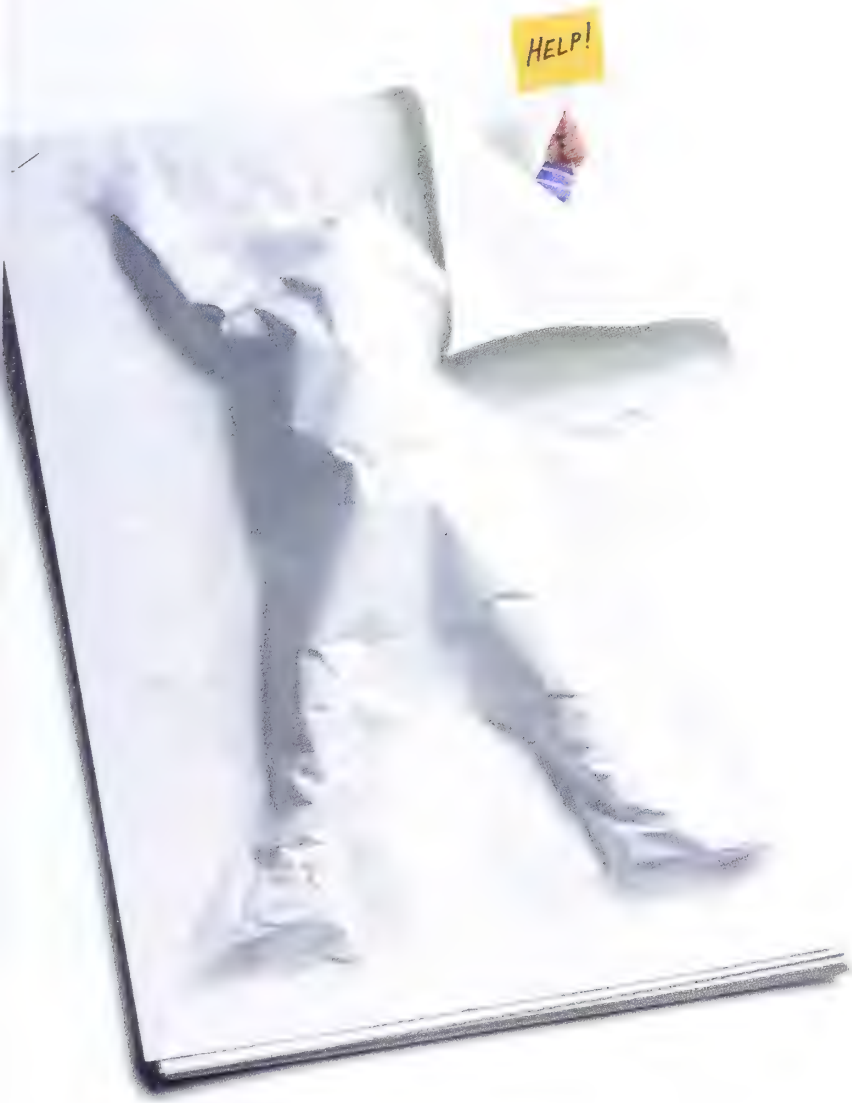
- Drops all but first two items from expense list imported from related program
- Some versions create extra copies of tax forms, changing the tax liability
- May enter a dependent for users who have no dependents

So far, Cook's willingness to publicly swallow a serving of humble pie appears to be working: Only 75,000 of Intuit's 1.4 million users have requested a new disk and about 3,000 people have downloaded the program from online services. As a result, William Blair & Co. analyst David Farina estimates that Intuit's $1.4 million charge to cover the replacement costs should be more than adequate.

Not everyone is content, though. Even an apologetic telephone call from Intuit President William V. Campbell and the offer of a replacement disk have not managed to mollify Beasley. "It has shaken my faith in the whole industry," he says. "Next year, I'm going back to my accountant."

By Dean Foust in Washington

We know where your productivity is hiding.



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EDITED BY KEITH H. HAMMONDS

A VIDEO NETWORK THAT RUNS ON PCs

INFO HIGHWAY ALERT: WHILE most putative I-way honchos are experimenting with expensive cable-based systems to provide video-on-demand or interactive television, one trio of partners is planning a system that will run over a high-speed computer and telephone network. AT&T, Intel, and Oracle are close to teaming up to build "the first video-based online service," says one insider. The sources say AT&T will sell and install the network, and Intel and Oracle will provide video-transmission technology. None of the companies will comment, but sources say the system should be ready for testing by April and go on sale in the next year for about $20 per month.

CLOSING BELL

BOLSA BELLS

Teléfonos de Mexico had taken a beating even before the *bolsa* collapsed. Now, Telmex' U.S. shares trade around 27, from 65 last August. For SBC, the U.S. phone company with 10% of Telmex' controlling shares, that represents a $2.6 billion paper loss. Bell Atlantic has taken a hit, too: It owns 42% of cellular operator IUSACELL, whose stock is down 35%. But their outlook is upbeat. Fewer than 9% of Mexicans have access to a phone line, leaving room for growth. AT&T, GTE, MCI, and Motorola all have partnerships with Mexican companies to bid for long-distance concessions.

W.R. GRACE HAS AN AGE-OLD PROBLEM

GEEZERS NEED NOT APPLY? College Retirement Equities Fund wants to amend the bylaws of W. R. Grace to bar the nomination of directors who would reach the age of 70 before the end of their terms—a proposal that would make 14 of Grace's 22 current board members ineligible for reelection. The idea comes a week after popular CEO J. R. Bolduc resigned after differences with Chairman Peter Grace, 81. The company said CREF's measure would get "serious consideration." One shareholder says that while the proposal may not be acted on, the board clearly has to do something to "calm the fires," calling Grace "ripe for breakup or takeover."

AMR'S EXECUTIVE IN THE CATBIRD SEAT

ROBERT CRANDALL, CHAIRMAN of AMR, gained an heir apparent, naming Donald Carty as president of the company's American Airlines unit on Mar. 15. Carty, a finance executive who has turned down top jobs at United Airlines and Air Canada in recent years, won't get the corporate president's title Crandall has held since 1980. But he does take on responsibility for crafting new labor agreements to save $750 million. His selection won't win many friends among AMR's unions, though. Says one union spokesman: "With all the emphasis on the nonairline parts of the company, we'd like to have seen someone with the airline's health at heart."

HEADLINER: JOHN E. PEPPER

AT P&G, A GOOD COP-BAD COP ACT

So nice guys can finish first. John Pepper, named Procter & Gamble's CEO effective July 1, is a P&G lifer who has won enormous popularity throughout the company. Quite a change from his hard-driving predecessor, Edwin Artzt. In five tumultuous years, Artzt inspired more fear than affection, cutting employment and shucking money-losing brands and old-time marketing methods. The result: strong profits but a bruised culture.

Pepper downplays the morale problem. What he does promise, in true Procter fashion, is to double sales over the next decade. With cash raining in from P&G's ongoing restructuring, his key task will be to invest it wisely. Much of the money will go overseas, both to core franchises in diapers and shampoos and newer areas, such as health products. With P&G's new worldwide operations chief, hard-nosed Durk Jager—runner-up in the CEO race—Pepper must improve returns abroad and fix P&G's lagging diaper business. Analysts and investors are happy both men are staying on—but wonder whether they can work closely together.

By Zachary Schiller

JUDGE SPORKIN FOR THE DEFENSE

MICROSOFT, THE JUSTICE DEPT., and Stanley Sporkin: The odd trio are tangled in a seemingly endless legal waltz. U. S. District Court Judge Sporkin complicated life for the other two in mid-February by tossing out Justice's consent decree with Microsoft. On Mar. 14, in a public statement, he explained why. Sporkin defended his request for more information from Justice and his decision to accept comments from anonymous Microsoft rivals, and he offered thinly veiled criticism of Microsoft for filing a Court of Appeals motion that he recuse himself from the case.

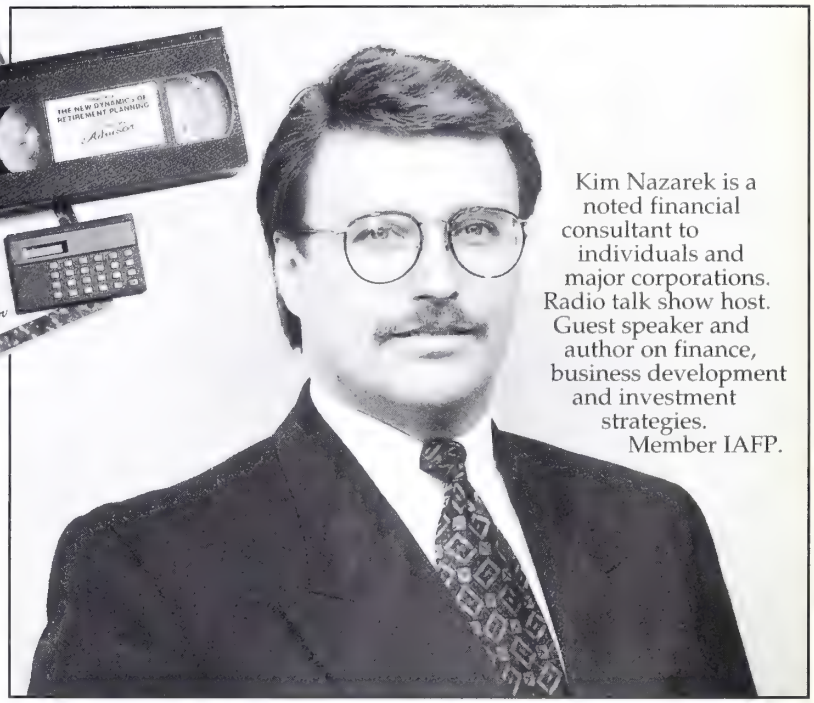
REGULATORY RELIEF, CLINTON-STYLE

THE CLINTON ADMINISTRATION is taking its first major steps to cut government red tape. On Mar. 16, the President was set to announce changes including exemptions from regulatory fines for small businesses that spend money correcting violations instead. At the Environmental Protection Agency, companies will be given a 180-day grace period to correct violations before being fined, paperwork will be cut by 25%, and companies will be eligible for a program suspending rules if pollution goals are met.

ET CETERA . . .

- Micron Technology will lavish $1.3 billion on Lehi, Utah, for a new chip plant.
- Groups led by Sprint and AT&T won big in the $7 billion wireless-service auction.
- Penske Truck Leasing will buy Leaseway Transportation for $200 million.
- Boeing beat McDonnell Douglas for a $1.17 billion Scandinavian Airlines order.

12 wealth-building strategies to lock in your retirement.



Kim Nazarek is a noted financial consultant to individuals and major corporations. Radio talk show host. Guest speaker and author on finance, business development and investment strategies. Member IAFP.

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OWEN ULLMANN

HE POLITICS OF POISON: AVE PERSONAL ATTACKS GONE TOO FAR?

emocrats started it, hoping that spotlighting the "sleaze factor" would slow the Reagan Revolution. Republicans perfected it when Newt Gingrich brought down a House aker and other Hill barons with devastating assaults on rupt Democratic machine politicians." Now, both sides bogged down in an ethics swamp that is building public ust for politics.

arely has the U. S. political system been so poisoned by er attacks on officials' professional ethics and personal mo- y. The aim of this new blood sport is to de- y a political agenda by tearing down the onent's integrity. Although no one is calling looser ethical standards, some fear that the zied character-slamming has adverse conse- nces: Qualified candidates are shunning pub- service, revenge is superseding bipartisan- , and voters may be lured to third parties. rt of the revulsion with government is the ef that there's nothing but corruption in shington," says Suzanne Garment of the erican Enterprise Institute.

or now, Bill Clinton is in the deepest muck. effectiveness has been hurt by the White- er affair and womanizing allegations. And a pro-reform Administration, the list of of- ls in ethical scrapes is growing: On Mar. 14, Justice Dept. asked for a special prosecutor nvestigate Housing & Urban Development retary Henry G. Cisneros over whether he lied to the FBI ut payments to his ex-mistress. Meanwhile, Hill Republi- s want an independent counsel to poke into Commerce retary Ronald H. Brown's murky finances. And Mike y was recently forced to resign as Agriculture Secre- amid allegations that he accepted improper gifts.

Vhile in the minority, Republicans turned such mud-sling- into effective political weapons. But now that it rules the , the GOP is attracting similar ethics broadsides. House Speaker Gingrich has been put on the defensive by his grab-and-run book deal, charges that he intervened with lawmakers on behalf of corporate benefactors, and complaints that he lied by labeling his college course as nonpartisan. Democrats have filed four ethics complaints against Gingrich.

PILEUP. Democrats also allege that Texas Senator Phil Gramm violated federal campaign-financing rules when he headed the GOP's Senatorial campaign committee. Representative Joseph M. McDade (R-Pa.) is facing trial on influence-peddling charges. And sexual-harassment complaints still hang over Senator Bob Packwood (R-Ore.)

GINGRICH: *On the defensive*

Character assassination is nothing new in Washington. What's new is the vehemence of the assaults and the willingness to turn ideological disputes into personal feuds. "The goal now is to discredit individuals rather than block their programs," laments Rutgers University political scientist Ross K. Baker.

Even worse, this political mau-mauing is deterring qualified candidates from joining government. A recent example is Retired Air Force General Michael P. C. Carns' withdrawal on Mar. 10 as Clinton's nominee for CIA Director. Carns' sin: a pay-and-immigration dispute involving a former domestic employee.

Individuals interested in public service are growing ever more reluctant to put themselves and their families through the ethics meat grinder. Indeed, associates of former HUD Secretary Jack F. Kemp say one reason he nixed a Presidential run was fear of having his personal life scrutinized in '96.

Will anyone call a truce? Not likely, as long as both sides are drawing blood. With momentous debates looming over the role and cost of government, Republicans and Democrats certainly have passionate differences to resolve. But they're too busy throwing ethical spitballs at each other to bother.

With Richard S. Dunham

CAPITAL WRAPUP

NNIE ON THE HOT SEAT

First, cash-strapped District of Co- mbia asked Congress to lift the ederal National Mortgage Assn.'s cal-tax exemption. Now, Boston- sed activist Bruce Marks is launch- g a campaign to force Fannie Mae to ndle more loans in low-income are- . A master at marshaling public inion, Marks won low-income lend- g concessions from Fleet Financial roup Inc. last year. Image-conscious annie Mae says it "stands by its hievements in housing."

TAKE TWO FOR THE DNC

▶ Wanna take a meeting with entertainment moguls Steven Spielberg, David Geffen, and Jeffrey Katzenberg? Just pony up $25,000 a couple, the admission for an Apr. 8 Democratic National Committee fund-raiser the Dream Team is hosting. Earlier, the event was postponed because of boredom with President Clinton among the Hollywood set. With oilman Truman Arnold as the DNC's new finance chief, other big donors may begin opening their checkbooks.

TALBOTT IS NO BROWN

▶ The Mar. 7-8 trade mission to Haiti headed by Deputy Secretary of State Strobe Talbott wasn't as rewarding as previous trips led by Commerce Secretary Ronald H. Brown. But Commerce aides say their normally CEO-schmoozing boss was too busy to tag along. Another possible reason for staying put: Ex-lobbyist Brown is persona non grata in Haiti because he represented the brutal Duvalier dictatorship that preceded the current democratically elected government.

Ashley Finley, 7, granddaughter of Drs. Sharon and Wayne Hoover, International Paper Land & Timber Division.

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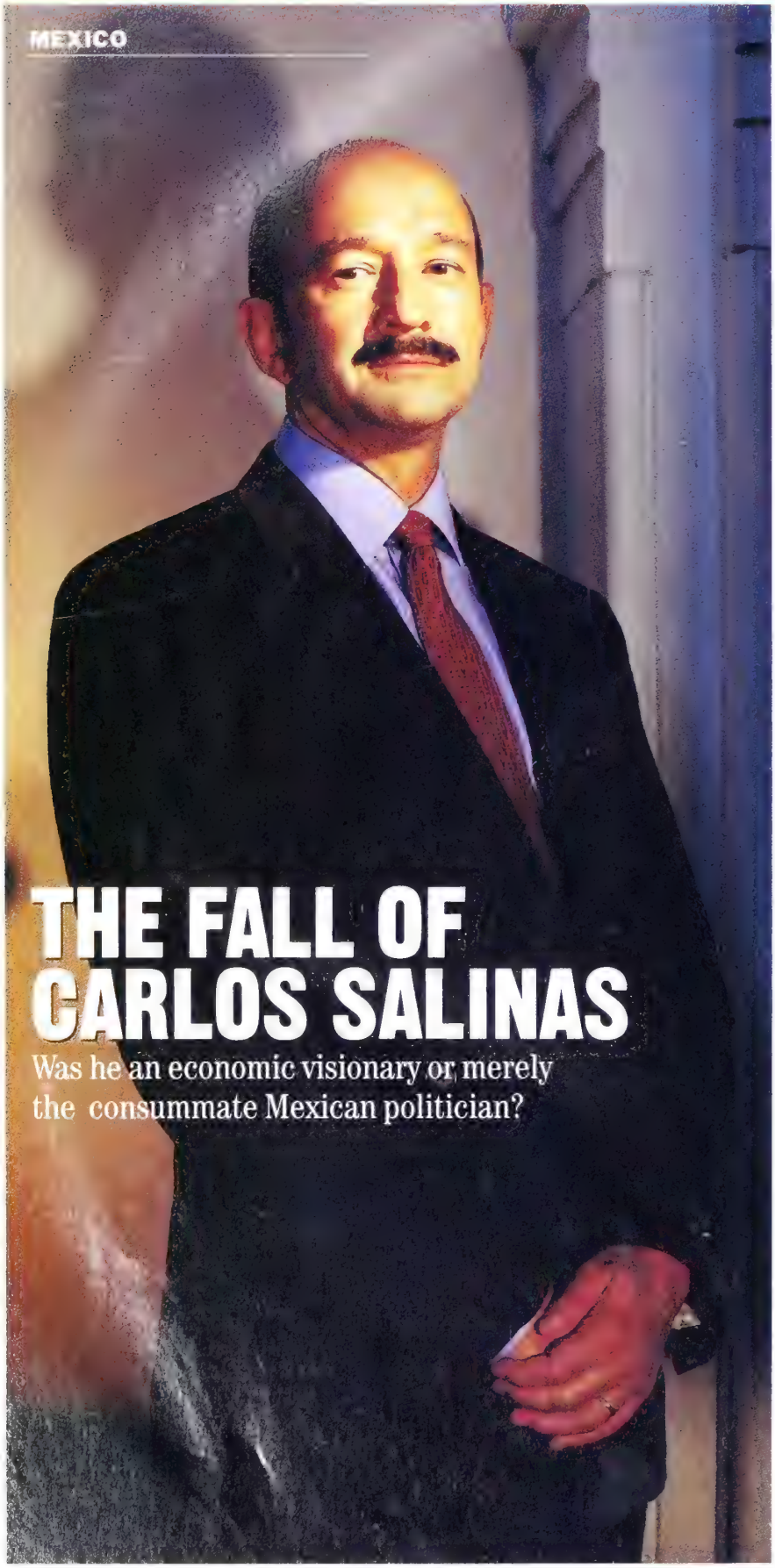


THE FALL OF CARLOS SALINAS

Was he an economic visionary or merely the consummate Mexican politician?

On Mar. 10, a short, balding man boarded the corporate jet of his godfather, a Mexican tortilla baron. The door closed, and the plane took off into the northern sky carrying its passenger to what appeared to be a lengthy exile in the U. S.

The unceremonious departure probably marked the end of the remarkable political career of Carlos Salinas de Gortari. During a six-year term as President of Mexico, Salinas emerged as a courageous economic reformer and an impressive new leader on the world stage. His savvy use of the far-reaching powers of Mexico's imperial presidency combined with an innate understanding of international politics and a finely honed sense of public relations made him a world figure at 40. Now, his dramatic fall from favor, coming on the heels of his country's economic collapse, has left many wondering what went wrong.

The answer is probably bound up in the riddle: Who was the real Salinas? The Harvard University-educated economist who dazzled the world with his bold privatizations and market openings? The visionary who co-created the North American Free Trade Agreement? The passionate advocate who convinced nearly everyone that Mexico was capable of leaping from grinding Third World poverty and backwardness to First World prosperity? Or was Salinas the consummate Mexican politician who latched on to the idea of economic modernization merely to allegedly enrich himself and his cronies through the lucrative sell-off of more than 1,000 state-run companies—a man not above engaging in deals with murderous drug traffickers and corrupt party bosses?

What can be said is that Salinas as President took Mexicans on an extraordinary ride that brought them tantalizingly close to developed-world status. In his race to reach that destination, though, he committed errors that will dog Mexicans for years to come.

Salinas' sudden decline closely parallels that of the Mexican economy. Both seemed imbued with such natural promise, such dynamism, such capacity for change. But when the collapse came, people realized Salinas' long-running success story had been a mixture of illusion and reality. "It was all smoke and

QUICK STUDY

In his Harvard days, Salinas read up on Keynes, Smith—and Machiavelli

rors," grumbles one foreign banker. But such anger ignores real accomhments. Salinas snapped Mexico out its protective shell. He dragged the nomy a long way toward modernizan. He pushed Mexico into world mars. And, at least for a time, he put xico's long-antagonistic relationship h the U.S. on a far better footing.

Still, Salinas' humble exit calls into estion Washington's handling of its inasingly intimate relationship with Mex- It is becoming clear that the Bush l Clinton Administrations, intent on ning congressional NAFTA approval, their best to downplay the extent to ich some high-level Mexican officials y have been involved in drug traffick- and corruption. There are also indicans that U.S. Treasury Dept. officials ed to act on warning signs that the xican economy was headed for trouble 1994. As a result, the U.S. has someat blindly hitched its economy to one t will require emergency assistance a protracted period. And even if the nton Administration's $52 billion rescue kage steadies Mexico's finances, the eaval that has been unleashed by the o crisis could last for years.

VER SPOON. Salinas talked the Amerns' lingo so well that they tended to get he was deeply rooted in the Mexn power structure. His father, Raúl—ormer Cabinet secretary and conder for the presidency himself—was o a businessman who with political es had extensive interests ranging m car dealerships to corn-flour prosors. As Commerce Secretary, he folved an age-old tradition of representthis group's interests in government. brought up his sons to run different es of the family's affairs. Carlos would y above the fray and pursue politics. úl would run the finances. Speaking father Raúl's efforts to keep Carlos ay from the money trail, one source es that "the old man wouldn't even him have a bank account."

His father taught Carlos the art of xican dealmaking by introducing him the country's political elite. Indeed, at rlos' baptism, the two godfathers re Roberto González Barrera, whose carried the ex-President to exile, d Carlos Abedrop, a powerful banker d former chairman of Mexicana Aires. Another friend, an in-law of nzález Airlines Barrera, was Carlos nk González, Salinas' wealthy Agriculre Secretary.

Young Salinas added an international nension to the clan by going to Harrd, where he studied government and onomics. Throughout his career, he also pored over classic books on power, such as Machiavelli's *Art of War* and *The Prince*.

For years, people underestimated the political guile of technocratic Salinas. In 1986, as a Budget & Programming Secretary as colorless as he was ambitious, Salinas engineered a coup in the Cabinet of President Miguel de la Madrid, getting rid of one of his chief competitors for the presidency, Jesús Silva Hérzog. That left Salinas as one of the three *presidenciables*.

From the moment Salinas was named

Carlos Salinas: A Brief History

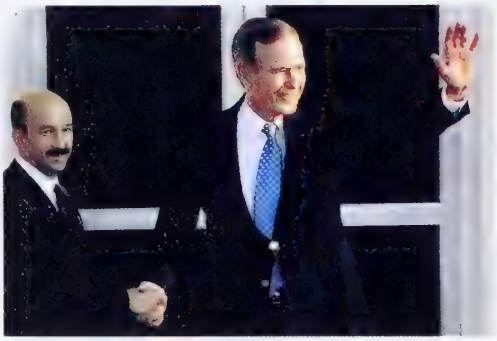
AUG. 1988 Salinas elected President

JAN. 1989 Salinas orders arrest of oil workers union chief Joaquín Hernández

FEB. 1990 Mexican debt rescheduled

DEC. 1990 Telmex privatized

OIL WORKERS: *Salinas was unyielding*



LOVE FEST: *With Bush in Washington*

JUNE 1990 Formally proposes NAFTA with George Bush

NOV. 1993 U.S. Congress approves NAFTA

JAN. 1994 Zapatista guerrillas take over Chiapas towns, rocking politics

MAR. 1994 Presidential candidate Colosio assassinated, foreign exchange reserves begin falling

AUG. 1994 Zedillo elected

SEP. 1994 PRI Secretary General Francisco Ruiz Massieu assassinated

NOV. 1994 Reserves fall when PRI accused of obstructing Massieu assassination probe

DEC. 1994 Zedillo inaugurated, soon devalues peso; currency plummets

FEB. 1995 Raúl Salinas implicated in Massieu murder

WHAT HAPPENED? *Salinas ends his bizarre hunger protest*

MAR. 1995 Carlos Salinas stages hunger strike, leaves for New York on friend's private jet

So golden was the Salinas touch that even investors trained as economists overlooked signs of fiscal weakness

the Institutional Revolutionary Party (PRI) candidate in the fall of 1987, he embarked upon a seven-year war against rampant inflation. Knowing that a presidential election during hyperinflation would spell disaster, he put together that December the first *Pacto*, the inflation-fighting pact of labor, business, and government. Relying much more on arm-twisting and dealmaking than on pure market forces, he slashed inflation to single digits.

But his budget-cutting threatened the PRI's decades-old system of graft and patronage. His enemies attacked him in the presidential campaign. They circulated a book titled *The Assassin President*. It told a story of how when Carlos was only 4, he had accidentally shot a young maid while playing with a gun. Most people thought the oil workers union was behind the publication. The labor boss, Joaquín "La Quina" Hernández, openly opposed Salinas, hinting that he, and not the President, would be running the oil patch under a Salinas administration.

A month after taking office, Salinas got his chance at revenge. In the first of a series of bold, attention-grabbing gestures, Salinas sent the army to arrest La Quina on weapons and corruption charges. Salinas had suddenly shown he had what it took to run Mexico.

FOREIGN CAMPAIGN. This episode set him on a course that would turn him into one of Mexico's most powerful Presidents. For a supremely self-confident 40-year-old, being President was a chance to strut on the world stage, rewrite Latin American history, even redraw the borders of the North American continent. But the job had its Faustian side: After six years as dictators, Mexican Presidents were routinely consigned straight to political obscurity. Luis Echeverría was dispatched to Fiji. Miguel de la Madrid buried himself in a quiet publishing job.

Salinas dreaded becoming a has-been at 46. His strategy to avoid oblivion: build a power base outside Mexico. With privatization and NAFTA, he would win the accolades of statesmen and the international business community.

The trouble was, even as he was establishing himself internationally as the golden boy of the developing world, Salinas was engaging in the rough-and-tumble world of Mexican politics. He seemed to think he couldn't run Mexico, much less modernize it, without using the traditional tools of power. He never hesitated to twist the arms of recalcitrant politicians, even forcing several governors from his ruling PRI to resign in order to give the impression it was loosening its decades-old grip on power. He named notorious hard-liners to key posts. He allegedly turned a blind eye to the less-than-savory activities of key associates, including his brother Raúl and former Agriculture Secretary González, who has accumulated a vast fortune during a long career of low-paid public service.

Salinas bristled at suggestions tha he tolerated corruption and drug tra ficking, but, nevertheless, the drug trad grew in volume and influence on hi watch. From time to time, Salinas woul launch major crackdowns, but few majo arrests were made. At the end of hi term, Salinas' inability or, as some think unwillingness to deal with the dru lords began to come home to roos

Many observers believe that th devastating assassination of PR Presidential Candidate Luis Do naldo Colosio in Tijuana i March, 1994, was the work o local party figures and dru bosses worried that Colosi might curb their activities. Th killing of PRI Secretary Genera José Francisco Ruiz Massieu Salinas' former brother-in-lav last September, further destab lized the country.

TURF WAR? Now that Salina has left office, prosecutors ar beginning to unearth what ap pears to be a seamy networ of drug-related corruptio among his associates. It turn out that Ruiz Massieu's brothe Mario, whom Salinas had ap pointed to investigate the as sassination and head a crack down on drug traffickers, ha been linked by U.S. officials t drug traffickers. The recent dis covery of more than $10 millio in Ruiz Massieu's foreign ban accounts tends to reinforc those suspicions. The fact tha Salinas named him to such key post raises questions abou how much he knew about Rui Massieu's activities. Adding t the doubts about Salinas wa the recent arrest of his brothe Raúl for being "the intellectua author" of the assassination o former brother-in-law Ruiz Massieu While prosecutors have not found motive for the slaying, speculation fo cuses on squabbling over turf betwee these two powerbrokers. Mexican jour nalists believe Colosio's assassinatio will eventually be tied to the Ruiz Mas sieu case.

Salinas was in a sense running paralle administrations: One modern and interna tional, the other backward and ingrown It's a testament to his skill as a tightrop

All in the Family

Politics and blood ties are at the center of Mexico's drama

CARLOS SALINAS DE GORTARI
President of Mexico '88-'94

RAUL SALINAS DE GORTARI
Former Commerce Secretary
Carlos' brother, now charged with masterminding assassination of Jose Francisco Ruiz Massieu

ADRIANA SALINAS DE GORTARI
Sister of Carlos and Raúl
Former wife of Jose Francisco Ruiz Massieu

JOSE FRANCISCO RUIZ MASSIEU
Secretary General of PRI
Was married to Adriana Salinas
Assassinated Sept., 1994

MARIO RUIZ MASSIEU
Former Deputy Attorney General
Brother of Jose Francisco
Was assigned to investigate brother's murder
Now charged with aiding coverup
In custody in New York, with millions of narcodollars in U.S. bank accounts

ROBERTO GONZALEZ BARRERA
Carlos Salinas' godfather
Tortilla baron
Said to have flown Salinas to exile

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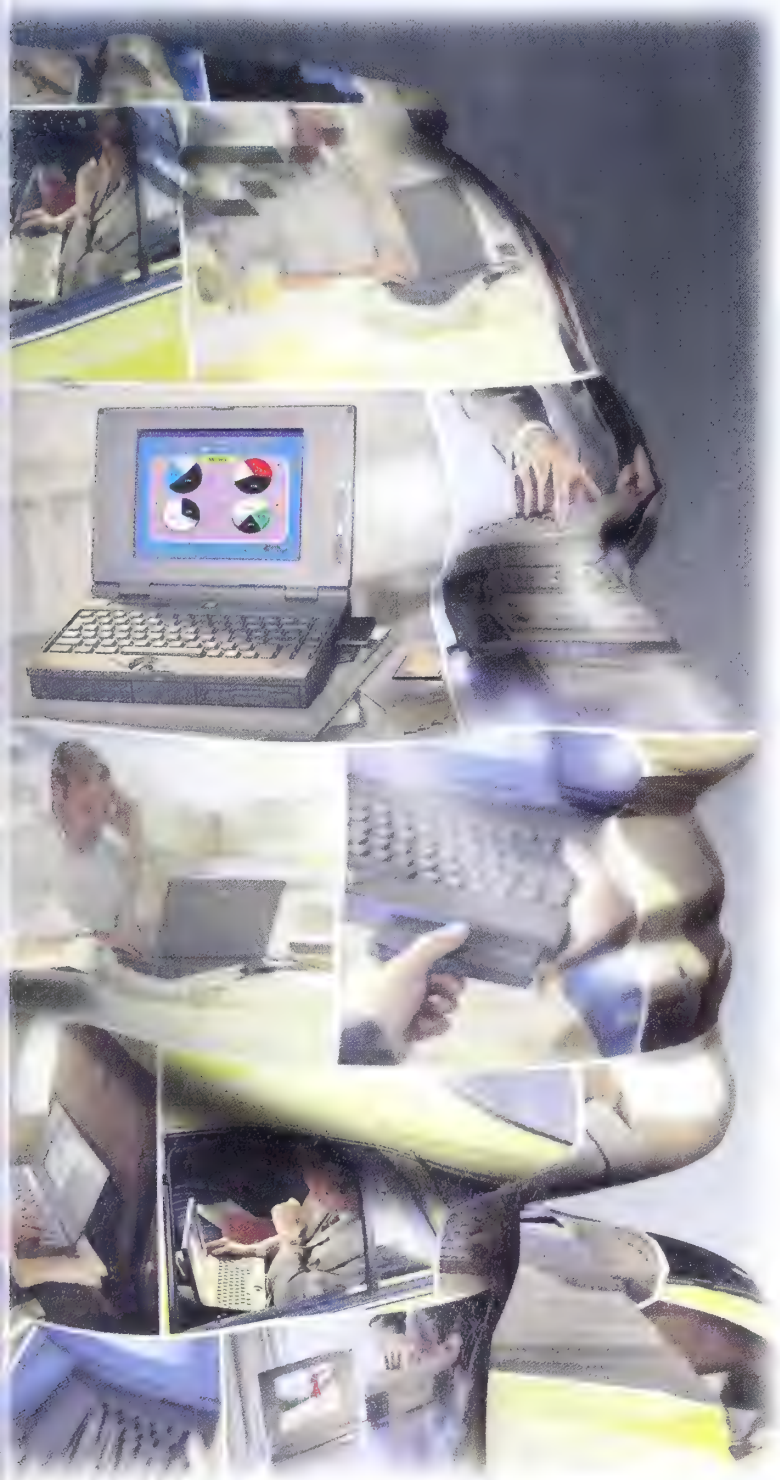

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Salinas personified the Mexican economy: Both seemed to offer such natural promise, such capacity for change

walker that he kept both running for most of his six years in power.

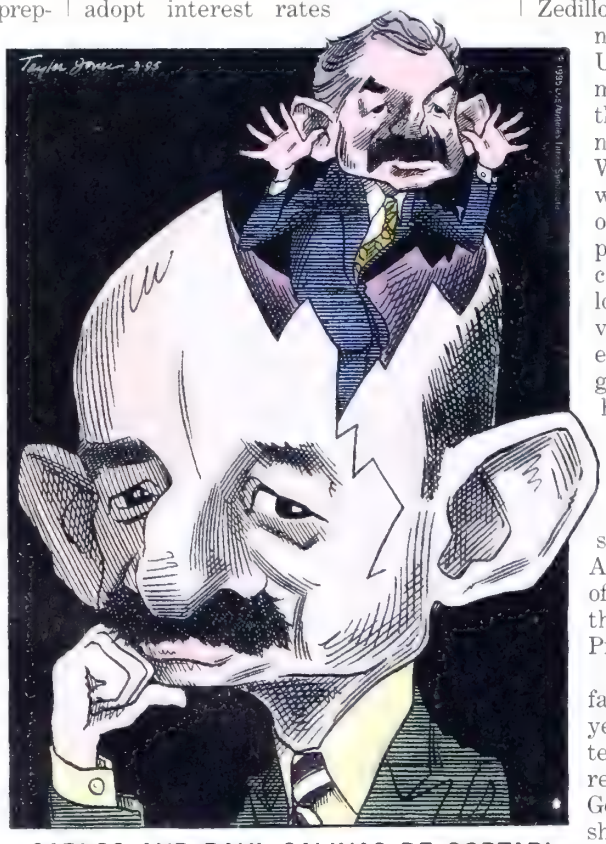
To develop Mexico economically, Salinas needed massive capital. The only place he was going to get it was from private investors, domestic and foreign. To do this, he undertook a PR campaign that would have been unthinkable for his predecessors. He flaunted his Harvard education and readily spoke English with foreigners—a first for Mexican Presidents. He hired McKinsey & Co. to reorganize state-run companies in preparation for privatization, and Wall Street investment banks were given plum roles.

He never passed up an opportunity to woo corporate chiefs. Heading out of town one day, Salinas ordered his limousine to pick up the visiting General Electric Co. Chairman Jack Welch on the way to the airport. With the personal attention of Salinas and his Cabinet officers, U.S. corporate paperwork zipped through ministries. CEOs raved over Salinas and his team. Government officials marveled, too. Even last year, ex-U.S. Trade Representative Carla A. Hills gushed that Salinas' team was the most impressive Cabinet she had ever seen.

TWICE FOOLED. Foreign bankers, who had swallowed a 30% write-down on Mexico's debt, hailed Salinas as a visionary. With an innocence and a herd mentality recalling those of the bankers who lent indiscriminately to Latin America in the late 1970s, foreign creditors believed Salinas could do no wrong. But Salinas needed more to attract big-time foreign investment. In 1989, he began to push for the massive reordering of North American trade known as NAFTA. The idea was to use American money to pull Mexico up to First World standards.

Even while opening Mexico to foreign investors, he also had to cater to his backers at home. By privatizing companies such as Teléfonos de México and the banks, he made big buddies rich but was dogged by charges that he'd gotten rich himself on the side. So golden was the Salinas touch that even those investors trained as economists were willing to overlook the ominous signs of economic imbalance beginning as early as 1993. Everyone from New York brokers to U.S. Treasury officials accepted Salinas' explanations that all developing countries built up trade deficits.

But then the political ground began to shake. Throughout 1994, as Mexico was battered by guerrilla warfare, political assassinations, and election jitters, the country lost nearly $28 billion in foreign reserves as Salinas and his team stubbornly refused to devalue the peso and adopt interest rates



CARLOS AND RAUL SALINAS DE GORTARI

PILLORIED IN MEXICO'S PRESS

A few weeks ago, such a cartoon would have been unthinkable

high enough to stem the outflow. They managed to convince investors that they could hold the line on the currency. Even after the assassination of PRI presidential candidate Luis Donaldo Colosio in March, 1994, Salinas' smooth Finance Secretary, Pedro Aspe Armella, was able to wow visiting fund managers by pledging to squeeze the economy in order to keep the peso steady at 3.2 to the dolla

And indeed, things seemed to b calming down when Salinas' successo Ernesto Zedillo Ponce de Léon, took of fice on Dec. 1. Salinas placed the presi dential sash across Zedillo's shoulder and gave his hand-picked successor warm *abrazo*. Just three weeks late Mexico's reserves were frittered away i speculative panic when Zedillo wa forced to devalue the peso.

Salinas watched in pained silence a Zedillo blamed Mexico's mounting ec nomic woes on his predecesso Until the very end, Salinas re mained Washington's top choice fo the prestigious job of heading th new global trade agency, th World Trade Organization. Bu when Zedillo ordered the arres of Raúl Salinas, Carlos felt com pelled to act. Giving up his WT campaign, Salinas accused Zedi lo's team of mishandling the de valuation. And in a bizarre twist c events, he staged a two-day hur ger strike. A pathetic shadow c his former self, Salinas sat upon child's bed in a poor family Monterrey shack. He left th country on Mar. 10. "His fall ha been incredible," says politica scientist Denise Dresser of th Autonomous Technological Institut of Mexico. "Six months ago, he wa the most extraordinary Mexica President of the 20th century."

Only the highest climbers ca fall as far as Salinas. Just fou years ago, he chatted with the tot tering Mikhael Gorbachev. On hi return from Russia, Salinas rue Gorbachev's judgment. The Russia should have postponed the polit cal opening until the economy wa fixed, he said, leaving it clear tha he would not make the same mistake.

But now he leaves a broken econom And the impressive political machiner he wielded has been torn apart by th infighting and assassinations of a part at war with itself. Zedillo, in effect, no follows a conjurer who has taken awa all of his tricks. The new President ha little choice but to plow ahead with de mocracy—the one card Salinas was sav ing for later—and to trust in the talent and resilience of Mexico's people.

By Geri Smith in Mexico City an Stephen Baker in Pittsburgh

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VISION QUEST
Italy's Luxottica is making a play for U. S. Shoe, which owns the LensCrafters chain of eyewear stores

CURRENCIES

SUDDENLY, IT'S TIME TO BUY AMERICAN

The dollar's slide is making U. S. companies alluring

For German chemical giant Hoechst, it was pfennigs from heaven: When it first began talking to Dow Chemical Co. about buying its Marion Merrell Dow Inc. unit last August, the mark traded at 1.54 to the dollar. Then, the dollar started dropping. Now, Hoechst could save at least $250 million on its $7.2 billion bid for the U. S. company.

Get ready for more companies to follow Hoechst to the U. S. With the dollar weak and U. S. productivity strong, expansion-minded executives say now is the time to buy American. Some are looking to acquire U. S.-based assets or expand existing production facilities. Others want to use the U. S. as a platform to export elsewhere. And while companies invest for strategic reasons—not because a currency is weak—some are hastening plans to take advantage of the dollar windfall. "The U. S. is at the top of most shopping lists right now," says Piers Von Simson, investment banker at S. G. Warburg Group PLC in London.

For the U. S., the prospect of surging investment is the flip side of the weakened dollar. The new investment may lead to expanded output in industries ranging from autos to pharmaceuticals. Last year, the U. S. attracted more direct foreign investment than any other country. Altogether, foreign companies pumped $57 billion into 668 mergers, acquisitions, and joint ventures in the U. S. last year, says KPMG Peat Marwick, which tracks cross-border deals.

So far this year, European companies are leading the way. They are cash-rich these days, their profits having soared as their economies have recovered from recession. In early March, Italy's Luxottica Group, an eyeglass maker, made a $1.1 billion offer for U. S. Shoe Corp., which owns the LensCrafters chain.

Companies from Germany and Switzerland, whose currencies have gained the most against the dollar, are also hot on the investment trail. On Mar. 13, Bayer announced the purchase of Florasynth Inc. in Teterboro, N. J., a maker of fragrances and flavors. Although Bayer won't disclose details, one London analyst figures Bayer could save 10% of the price thanks to dollar weakness.

Meanwhile, Arno Burckhardt, managing director of M&A International, a German consulting firm, says he has received queries from midsize German companies contemplating a U. S. move. Currency issues loom large for midsize companies, because they often can't finance an acquisition by borrowing in dollars as larger companies can. Burckhardt thinks the real effect of the currency turmoil will show in about six months as more deals are concluded.

But it's not just Europeans who are attracted to America's shores. Even the Japanese are showing renewed interest, despite having been burned in the past by unsuccessful purchases of U. S. "trophies." The new investments are better targeted. In February, for example, Sumitomo and Nippon Sheet Glass announced the purchase of 20% of FMC Wyoming, the largest U. S. soda-ash producer, for $150 million. Chipmaker NEC Corp. may expand chip production on the West Coast. Among the auto makers, Honda Motor Co. plans to increase U. S. output 20% by 1997.

RISK FACTOR. For foreign investors in the U. S., there is a downside. They risk showing lower profits once dollar revenues are translated into stronger sterling, marks, or yen. Britain's Cadbury Schweppes PLC, for example, doubled its U. S. presence with the $1.7 billion purchase in February of Dr Pepper/Seven Up Cos. Now, it depends on its U. S. holdings for 42% of profits and could be hurt if the dollar remains weak.

But overall, analysts expect the investment surge to continue. Although the dollar stabilized after its plunge in early March, Swiss Bank Corp.'s head of foreign exchange trading, Andrew Siciliano, predicts that "another wave of dollar selling" will take the mark to new highs. At that point, "we'll see tremendous foreign direct investment in the U. S.," he says.

That may also lure a throng of camera-toting Japanese and European tourists to the U. S. this summer—a reminder that, as always in a currency crisis, one person's woe is another's windfall.

By Paula Dwyer in London, with Karen Lowry Miller in Bonn and Robert Neff in Tokyo

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GERMANY

'A SERIOUS BLOW TO GERMAN COMPETITIVENESS'

IG Metall's gains may bring a round of savage cost-cutting

After an 11-day strike in Bavaria, Germany's IG Metall labor union appeared to hit the jackpot on Mar. 7. The union's 3 million members in industries ranging from steelmaking to electronics to autos will get three pay hikes, a shorter working week, and higher Christmas bonuses.

But it's a settlement that could blow up in labor's face. Faced with soaring wage bills, companies will now have to cut costs savagely. A widespread hiring freeze is expected in manufacturing, dampening prospects for reducing Germany's 9.9% unemployment rate. And things could get much worse if the Bundesbank raises interest rates. "This [settlement] will certainly mean that jobs will be cut and more production will be moved out of Germany," says Hubert Stadler, head of a Hesse employers' group.

The union won the sweet deal after officials of Gesamtmetall, the employers' federation, bungled the negotiations. They went for big concessions before talking money. They threatened a lockout, which the union quickly countered by threatening to take the strike national. In the end, a resolute IG Metall triumphed.

"SERIOUS BLOW." Now, executives are howling over the deal. Warns David J. Herman, chief executive of General Motors Corp.'s Adam Opel unit, based near Frankfurt: "It is a serious blow to German competitiveness." Initially, IG Metall wanted a one-year contract with a 6% increase. Instead, it got a two-year deal: After one retroactive hike, the union won a 4% rise in average nominal pay rates this year and nothing in the second year.

But the actual cost to employers will be far higher than it appears on paper. Because of the bonuses and the shortened workweek without any reduction in pay, figures Thomas Mayer, chief economist at Goldman, Sachs & Co. in Frankfurt, hourly wage costs will rise 5.5% this year and 5.1% next year. That's already more than double the current 2.4% inflation rate.

Worse yet, the dynamics of the complex deal are such that the main hit comes near the start of the contract. By the end of this year, it will produce a staggering increase in wage costs compared with a year ago. "In December, our wage costs will be 10.4% higher than in December, 1994," complains Bernd Pischetsrieder, CEO of Munich-based luxury carmaker BMW. Such a jump is enough to wipe out last year's 10% productivity gains by German manufacturers.

The settlement is fast becoming a standard across German manufacturing and services industries. Within days of the agreement, insurance and chemical workers cut similar deals. Now, bank employees and civil servants want the same, and construction workers think they can do even better. The IG Metall deal, says Goldman Sachs' Mayer, "[has] effectively ratcheted up wage settlements in other sectors."

The upward trend already has some companies closing the door on substantial expansion in Germany. Likely beneficiaries are Eastern Europe and Asia as well as low-cost countries in Western Europe such as Britain and Italy. "Our basic strategy is now to preserve and protect our German investment," says Louis R. Hughes, head of GM's international operations. "But if we need additional capacity, we will get it outside of Germany."

The wage settlement comes just as a sky-high German mark is helping drive up costs. The combined impact is dramatic. When BMW decided in 1992 to build an auto plant in Spartanburg, S. C., it figured its U. S. labor costs would run about 30% less than in Germany. "Now, [U. S.] costs are 50% lower," says Pischetsrieder. Still, he doesn't plan to add production at the plant, which started up last month. To ensure that quality is up to snuff, he insists that BMW will for now stick with its original plan to produce 90,000 roadsters a year in Spartanburg.

The hundreds of small and medium-size companies in the *Mittelstand*, Germany's manufacturing backbone, are in an even tighter squeeze. As suppliers, they are under increasing pressure from the giants to cut prices. Yet not only did their negotiators fail to deliver cost-saving concessions from the union as part of the package, but the final deal was cast largely in terms of what big companies could pay.

Any hopes that German unions were adopting a more moderate stance as global competition increases seem crushed by the IG Metall settlement. Labor had shown some willingness to compromise during Germany's short, sharp recession. Now that the economy is growing smartly again, moderation seems to be a lost cause.

By John Templeman in Bonn

WAGE WOES

The settlement is quickly becoming a standard across German industry—and executives are howling

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EDITED BY WILLIAM J. HOLSTEIN

WILL COZYING UP TO CLINTON HELP BHUTTO CLING TO POWER?

Pakistani Prime Minister Benazir Bhutto is attempting to play the American card. By inviting First Lady Hillary Rodham Clinton to visit Pakistan on Mar. 27-28 and then coming to Washington to see President Clinton during an Apr. 4-14 U. S. trip, Bhutto is trying to demonstrate to her army and fractious compatriots that she should remain in power.

But reality seems to be starkly at odds with the grand gestures. Bhutto, who comes from the province of Sind, is suffering increasingly strained relations with the Punjabi-dominated army. There is open talk that once again it's time for the military to take charge. "I am not sure if the parliamentary system is the best system of democracy for Pakistan," former Prime Minister Moeen A. Qureshi hinted darkly on Mar. 8, after meeting army commanders. Qureshi, a Punjabi, is also a former World Bank vice-president.

BHUTTO: *The generals are restive*

One reason for the discontent: Bhutto has been unable to stop the carnage in her nation's largest city, Karachi, where war-hardened Afghans, Mojahirs from former East Pakistan, and other ethnic groups engage in daily warfare. Battles between Iranian-inspired Shiites and homegrown Sunni Muslims, as well as fights for control of the heroin trade, also are costing lives each day. Two U. S. diplomats assassinated on Mar. 8 were among the latest victims.

BIG DEALS ON HOLD. A poor economic performance is fueling Bhutto's woes. The best estimate is that Pakistan's economy is growing at less than a 4% annual rate, well below the level necessary to satisfy the needs of its 120 million people.

U. S. business is caught up in the delicate dance between a wounded Bhutto and her Administration benefactors. During a high-level visit by Energy Secretary Hazel R. O'Leary in September, 1994, U. S. and Pakistani officials trumpeted $4 billion in energy-related deals with companies such as Enron, Bechtel, and Amoco. But a constant barrage of negative headlines, combined with delays in sorting out U. S. Overseas Private Investment Corp. and Export-Import Bank financing, appears to have put most of the deals on hold.

As far as Washington is concerned, however, Bhutto has been doing more right than wrong. Her government in February let U. S. agents quickly extradite Ramzi Ahmad Yousef, the suspected mastermind of the World Trade Center bombing. She also is letting the Americans set up a Nuclear Explosion Monitoring Center to track underground vibrations of Pakistan's Kahuta Enrichment Plant. This is designed to reassure the U. S. that Pakistan is not developing a nuclear weapon—the major irritant in relations. Because of all these reassuring moves, the White House is loath to think Bhutto could be at risk. "There's no indication we're close to another transfer of power [to the military]," says one official.

FOREIGN JUNKETS. One of Bhutto's key goals in courting Clinton is to ease enforcement of the Pressler Amendment. That law bans the transfer of 60 F-16 fighters, for which the Pakistanis have already paid, because of concerns about Pakistan's nukes. And Bhutto is also expected to devote much of her time in the U. S. to wooing investors. The point: Only she can deliver.

But it may be too little, too late. Nawaz Sharif, another former Punjabi Prime Minister who is mentioned as Bhutto's most likely successor, has been arguing that she is simply incompetent in curbing domestic violence. Bhutto's 24 foreign junkets in 15 months reinforce the image of a leader spending more time abroad than at home. There is little love lost between her and the Punjabi generals, who hanged her father Prime Minister Zulfikar Ali Bhutto, in 1979. For this embattled Bhutto, playing the American angle may be her last best shot.

By Shahid-ur-Rehman in Islamabad with Amy Borrus in Washington

GLOBAL WRAPUP

TRANSATLANTIC SQUABBLES

▶ Relations across the Atlantic are souring again. After discovering CIA agents snooping on economic targets, the French welcomed Cuban leader Fidel Castro to Paris. Officially, there was no linkage between the two events, but Castro's red carpet reception seemed designed to irritate Washington. Similarly, President Clinton's strained relations with the British government, which attempted to dig up campaign dirt on his days at Oxford, took a turn for the worse when Clinton allowed Sinn Féin leader Gerry Adams to make an official, fund-raising visit to the U. S. Cries of rage were heard in Whitehall. All this is unfolding against a backdrop of deepening differences over Bosnian peacekeeping, NATO expansion, and dealing with Iran and Iraq.

QUEBEC SEPARATISM STALLS

▶ Quebec Premier Jacques Parizeau's campaign to make the French-speaking province an independent nation may be running out of steam. Even Parizeau concedes that massive province-wide hearings failed to generate much new support. With an independence referendum now seemingly headed for defeat, some separatists are urging Parizeau to delay any vote until support surges over the 50% needed to win. Others argue Parizeau should ask voters to approve instead a less-threatening form of "sovereignty association." For now, Parizeau is hanging tough, promising to hold a vote this year on outright "sovereignty." If he loses, however, the cause could be dead for a generation.

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MARKETING

THE GOP'S DESIGNATED PITCHER

Peter Hoekstra's assignment: Sell the Contract With America

Back in 1983, when Herman Miller Inc. marketing executive Peter Hoekstra prepared to launch a revolutionary office chair, he used focus groups of potential customers to test the ergonomic product. "People said it was the worst, ugliest chair they'd ever seen," recalls Hoekstra, now a Republican congressman from Michigan. But his design team—convinced that easy-to-use ergonomics would overcome bad looks—was undeterred. Today, the "Equa chair" is an industry best-seller and Herman Miller's most successful product.

Now the 41-year-old University of Michigan MBA has been handed what is arguably the ugliest political task of 1995: designing a strategy to sell the public on massive spending cuts needed to finance the Republicans' promised tax cuts and balanced budget. Hoekstra must persuade middle-class Americans and businesses to give up some of the federal benefits they've enjoyed for decades—while fending off Democratic attacks on the budget plan as an assault on the poor. "It's the toughest marketing challenge I've ever had," concedes the second-term congressman.

Indeed, the GOP has to slash spending by $189 billion just to pay for the tax reductions in the Contract With America, and Republicans need an additional $1.3 trillion in cuts to balance the budget by 2002. Their plan: curb popular programs using a marketing scheme that is part business soft sell, part political hard sell, and part education.

TARGET GROUPS. In January, when GOP leaders decided they needed an aggressive sales plan, Hoekstra, the only lawmaker with Big Business marketing experience, was the obvious choice. He now meets daily with lawmakers including Representative Bob Franks (R-N.J.), who as state party chairman paved the path for budget cuts in New Jersey, and Representative Susan Molinari (R-N.Y.), whose Staten Island district includes the kind of working-class voters the GOP must satisfy.

Like business marketers, they've identified five target customer groups: baby boomers nervous that Social Security will be broke when they retire; independent-minded Perot voters who want lawmakers to make tough decisions; blue-collar Reagan Democrats who favor welfare cuts but resent GOP tax cuts for the rich; seniors who worry that Social Security and Medicare benefits will be slashed; and young adults who fear growing national debt as a threat to their living standards. The unifying slogan chosen to reach these diverse camps: "Saving Our Future."

Although details of their plan won't be settled until April, Hoekstra & Co. have already decided on some elements of their pitch. Paid media will include TV and radio commercials, videos to train grassroots activists on selling the GOP's fiscal product, and direct-mail appeals aimed at specific "customer" groups. Republicans also hope to earn "free media" through a blitzkrieg on talk radio, where conservatives rule. The team will woo opinion leaders by sending lawmakers around the country to meet with newspaper editorial boards and by cranking out op-ed columns.

Hoekstra insists he won't use polls or focus groups to choose which programs to cut—a tough assignment left to the GOP leadership. But he plans to apply those tools to fine-tune the mass-marketing of the final package beginning in April. He'll coach every Republican House member on ways to sell the program, then have them fan out to town meetings and campaign-style events back home during the spring recess. But, on the stump, Hoekstra wants his colleagues to stress the GOP's reform agenda rather than focus on steep cuts. For example, farmers would be reminded that they could win relief from costly environmental regulations to offset their eviscerated crop subsidies.

This isn't the first time Hoekstra has used such unconventional sales cues. He won his House seat in 1992 by bicycling across his western Michigan district, unseating the powerful chairman of the National Republican Congressional Committee, Guy Vander Jagt, in the primary despite being outspent 13 to 1.

The GOP could certainly use some marketing help. During recent House Appropriations Committee budget-cutting, Democrats successfully painted the Newtniks as heartless lawmakers bent on sacking school-lunch subsidies and aid for the poor to shower tax cuts on the rich. The cuts "reinforce Republicans' image as lacking compassion, being uncaring, and sometimes mean-spirited," charges Representative Richard J. Durbin (D-Ill.). "Mr. Hoekstra has his hands full." Indeed, persuading Americans to sacrifice some of their cherished federal pork will surely tax the talents of even Congress' top marketing whiz.

By Richard S. Dunham and Mary Beth Regan in Washington

NEWT'S SALESMAN

NAME Peter Hoekstra

AGE 41

EDUCATION BA, Hope College, Holland, Mich., 1975; MBA, University of Michigan, Ann Arbor, 1977

CONGRESS Won his western Michigan seat in a 1992 upset over veteran Guy Vander Jagt, who outspent him 13 to 1

BUSINESS EXPERIENCE Vice-president for product marketing at Herman Miller, a $1 billion furniture maker in Zeeland, Mich.

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AFFIRMATIVE ACTION

'A HAND UP, BUT NOT A HANDOUT'

With solid technical assistance, set-aside programs can work

When Gary L. Ennis went into the highway construction business in 1977, he figured that big-time road builders would pave a path to his door. As a Native American, Ennis could help Maine contractors meet their federally mandated goal of placing 10% of their highway business with minority- and women-owned companies. But he soon found himself in a rut: General contractors saw him as a quota-filler and relegated him to low-margin jobs. Or they helped women relatives and friends set up companies to get the work. "The big contractors found a way to meet the letter, but not the spirit, of the law," he says.

Disgusted, Ennis quit construction in 1988. But unlike the swelling ranks of affirmative-action foes, he thinks the programs should be reformed, not abandoned. "Racism is alive and well," says Ennis, now a parish administrator for Catholic Charities Maine in Caribou, Me. "It's a good idea to help people with a hand up, but not a handout."

His experience highlights the mixed record of affirmative action in federal contracting—America's quarter-century-old effort to help build a minority business class. A look at the minority contracting programs at the Small Business Administration and the Defense and Transportation Depts. shows that these big "set-aside" and preference plans fall short of their goals.

As Ennis found, the programs are subject to abuse by white contractors using minority "front" companies. Federal agencies focus on meeting numerical goals and neglect the training that could help minority companies survive outside the sheltered world of government preferences. And the programs can create resentment by shutting out some struggling white-owned companies.

PRIME TARGET. But where bureaucrats have provided technical support and advice as well as contracts, minority businesses have thrived. "You have to bring minority contractors into the business networks," says Timothy Bates, a Wayne State University professor and expert on minority contracting. "There has to be some effort to push back the barriers."

Such successes could get lost in the growing clamor to end affirmative action. GOP Presidential hopeful Senator Phil Gramm of Texas pledges to wipe out all federal "quotas, preferences, and set-asides." Senate Majority Leader Bob Dole (R-Kan.) is scrutinizing the 166 federal preference programs identified by congressional researchers. President Clinton, scrambling to placate white voters without alienating blacks, has ordered his own review of affirmative action.

Public resentment often focuses on hiring preferences—the policy first mandated by President Johnson in a 1965 executive order that required government contractors to take "affirmative action" to hire and promote more women and minorities. But hiring policies

ENOUGH IS ENOUGH
Lorena Laprade (left), a highway contractor with sister Debra, says after 5 to 10 years, a business should stand on its own

The Reach of Affirmative Action

The Congressional Research Service found 166 provisions in federal law offering preferences based on race, gender, or ethnicity. A sampling:

FEDERAL CONTRACTS
The Small Business Administration certifies 5,400 companies as socially and economically disadvantaged. Other federal agencies can award contracts to these companies without competitive bidding. After nine years, these companies must graduate from the program.
RESULT In 1994, such companies won $4.4 billion in federal contracts.

COMMUNICATIONS LICENSES
The Federal Communications Commission gives advantages to minority- and women-owned companies buying radio and TV stations. For wireless telephone licenses, disadvantaged companies get discounts, financing help, and tax credits.
RESULT Minorities own 323 radio and TV stations, or 2.9% of the total, up from 0.5% in 1978.

EMPLOYMENT
Under a 1965 executive order, 112,000 companies and colleges doing business with the federal government must spell out goals and timetables for minority and female hiring and promotions.
RESULT EEOC surveys of large employers show blacks' share of management jobs has risen from less than 1% in 1966 to 5.3%; women's share, from 9.3% to 30.5%.

DATA: CONGRESSIONAL RESEARCH SERVICE, SMALL BUSINESS ADMINISTRATION, FEDERAL COMMUNICATIONS COMMISSION.

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are ultimately up to the private sector. The federal contracting programs, on the other hand, give agencies power to bend purchasing rules so that a small percentage of federal contracts goes to "disadvantaged" companies. It's those programs that are most vulnerable to the congressional ax.

The most criticized set-aside program is the Small Business Administration's 8(a) plan. Under the 1969 program, the SBA certifies 5,400 minority- and women-owned companies as "socially and economically disadvantaged." These companies—ranging from janitorial and construction to computer service outfits—can contract with federal agencies without competitive bidding.

The SBA is supposed to help these businesses develop survival skills during the nine years they can stay in the program. But 42% of the companies that graduated between 1990 and 1993 have folded or shrunk. Intended "to give minorities the license to hunt and to teach them to hunt," the plan is now "a hand-holding program," says Walter Larke Sorg, a Nixon Administration official who helped found the 8(a) program. The SBA says the failure rate of 8(a) companies mirrors the rate for all small businesses. But in August, it announced plans to beef up its mentoring efforts, a tacit admission that they were wanting.

LUCKY FEW. The lack of competitive bidding, even among themselves, keeps minority companies from learning the ropes. And federal agencies can play favorites rather than hassle with bidding. So a handful of companies ends up benefiting. In 1994, 1% of participating companies got 25% of the program's $4.4 billion pool, the General Accounting Office found, while 56% got no contracts.

Some agencies will go to great lengths to stick with an 8(a) company they already know. A 1994 GAO study of an Energy Dept. office found that it shortened a contract's length and relaxed the requirement on skill levels to keep the price below the SBA's $3 million ceiling for noncompetitive awards to 8(a) companies. When that deal expired, the agency rehired the firm. Energy says it's now trying to use more companies.

In some agencies, minority programs have spurred bitter complaints from white, male-owned rivals that they're being squeezed out of the government market. The Defense Dept., for example, has set a seemingly modest goal of placing 5% of its vast contracts with disadvantaged businesses. But with 60% of the military's funds spent on aircraft, ships, and other big-ticket items, smaller contractors—white and minority—are crowded into such remaining areas as construction, computer services, and maintenance. Defense spends only 10.3% of its contracting budget on construction, for example, but gets 29.5% of its minority purchases in that sector.

Within those areas, Defense rules require purchasing officers to limit bidding to minority firms whenever such suppliers are available. The result can be painful for white contractors: Bob McCallie's engineering firm may lose the $150,000-plus computer management contract it has held since 1989 at the Air Force's Strategic Command near Omaha. The Air Force wants to switch the job, without bids, to a black-owned firm near St. Louis. Defense concedes its contracting causes problems: "Any program designed to favor one segment will, by definition, hurt others," says Tim J. Foreman, a procurement analyst.

When minority companies get the support they need, they can take off—without resentment from white-male companies. The Transportation Dept. asks the states to grant 10% of their federal highway money to minority- and women-owned businesses. Vermont sets a higher hurdle: Contractors there have to meet a 20% benchmark.

The state now boasts almost 50 successful minority- and women-owned companies that it helped cultivate. It spends only $5,000 a year on technical assistance—mostly on accounting courses—and gives informal advice to fledgling entrepreneurs. That apparently helps, judging from the number of companies that once got such advice and are now winning bids without special support. "A business should be competitive enough to get work without government incentives," says Lorena R. Laprade, president of L&D Safety Marking Corp., a Berlin (Vt.) highway line-striping company that got breaks. The company has grown from three employees in 1985 to 26. Proven track records like L&D's help alleviate resentment from companies that don't get assistance.

"WORTH THE GAMBLE." Many of Vermont's general contractors hire minority- or women-owned companies, even after they have filled their quota, because "they have the expertise," says Kim Smalley of Pike Industries Inc., a highway-paving contractor in Tilton, N. H. Vermont officials often promote such businesses across state lines. Augusta (Me.)-based Bridgecorp hired African American Jesse R. Watkins II to do the painting work on a $4.5 million Vermont bridge project even though it had met its minority requirement. Watkins was new to the painting business, but Vermont officials vouched for him. "We felt it was worth the gamble," says Ken Burrill, Bridgecorp president.

The state of Vermont knows what American businesses have discovered too: that buyers need to cultivate their suppliers to get the best performance. Similar attention from the federal government could help nurture the strong minority businesses it set out to seed 3 years ago. That would hasten the day when numerical goals and special preferences can fall by the wayside.

By Catherine Yang and Mike McNamee in Washington

How To Make Minority Preferences Work

FOSTER COMPETENCE Just handing out contracts to minority- and women-owned companies doesn't promote entrepreneurship. Government agencies need to provide technical assistance and management advice so companies can handle the job.

REQUIRE COMPETITIVE BIDDING Minority- and women-owned companies should compete for some federal contracts among themselves or in the open market. The more they can withstand the rigors of the marketplace, the likelier they can succeed without government supports.

SET LIMITS Once a minority company can stand on its own, it should no longer get special breaks. This ensures that the companies that need help the most get the support and prevents others from milking the system.

PLAYING FAVORITES To keep work in one minority outfit's hands, the Energy Dept. shortened the contract's length and relaxed its requirements on use of skilled personnel

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DEALMAKERS

OLIVETTI BETS ON DE BENEDETTI II

Can the CEO's son turn multimedia into a growth engine?

Typically for Italy, it's family to the rescue. Carlo De Benedetti, the 60-year-old chairman and CEO of Olivetti, is looking to son Marco, 33, to help turn things around. While Olivetti's core computer business is hurting, Marco is off and running with a spin-off of the company's scattered media ventures called Olivetti Telemedia. The goal: Use the new company to make Olivetti one of the Continent's hottest players in multimedia.

Olivetti desperately needs a fresh start. Its computer business is losing ground to industry heavies such as Compaq, Hewlett-Packard, and Germany's Vobis Microcomputer. Net losses in 1994 could run as high as $340 million, capping four straight years of red ink. A new push into mobile telecommunications, with a commanding 36% stake in Italy's Omnitel-Pronto Italia, the country's first private cellular operator, is hardly enough to make up for the lagging performance in computers. Olivetti's stock, meanwhile, has fallen about 20% since January.

Looking for new growth, Chairman De Benedetti created Milan-based Telemedia last July. The new company has sales of only $350 million, vs. the parent company's $5.6 billion. But Telemedia's involvement in online services, desktop videoconferencing, and software for sophisticated networks could help revitalize Olivetti.

BIG FISH. As head of Telemedia, Marco has more going for him than his name. A product of American and European business culture, Marco graduated from Wesleyan University and did a one-year stint at Procter & Gamble Co. before getting an MBA at Wharton. The next two years were spent in nonstop dealmaking at New York's Wasserstein Perella, where he worked on the Time Warner and RJR Nabisco mergers. "It was a fun time," exclaims the boyish executive.

TRAINED IN AMERICA Marco De Benedetti cut his teeth at Procter & Gamble and at Wasserstein Perella, where he worked on the Time Warner and RJR Nabisco deals

Dealmaker Marco's trump card: leveraging Olivetti's powerful presence across Europe to attract partners with hot technology—and deep pockets. Some big fish are already biting. Olivetti was the only computer group chosen by Microsoft Corp. when it recently selected five global development partners for interactive multimedia software based on its new Windows NT operating system. That stands to strengthen Olivetti's position in cutting-edge consumer products such as video-on-demand.

In another promising deal, Telemedia linked up with Hughes Network System Corp. to offer digital satellite telecommunications services to big corporate customers in Europe. De Benedetti is betting that companies will prefer dealing with a single telecom operator to negotiating Europe's maze of state-run phone companies. Although Hughes faces tough competition in the emerging digital market from General Electric, AT&T, and Nippon Telegraph & Telephone, none has European partners. "Olivetti's broad customer base in Europe will help it stack up against the opposition," says Kenn D. Walters, senior consultant at BIS Strategic Decisions in Munich.

De Benedetti plans to go after market niches where Olivetti is already a strong player. He aims to develop key business applications for the Internet, such as payment services, that will tap Olivetti's expertise in point-of-sales terminals and smart cards. "We have the right critical mass in people, resources, and revenues to allow us to do this," says De Benedetti. Other key areas: security systems and online services.

De Benedetti hopes to rush to the market high-quality videoconferencing for PCs—at prices within almost everyone's reach. Telemedia now directs Olivetti's research lab in the middle of Britain's Cambridge University, where scientists confer by video with each other using Olivetti's broadband technology. The system's tiny desktop-mounted microphones and cameras deliver crisp, flowing images and CD-quality sound. ATI Ltd., a Cambridge company controlled by Telemedia, is planning to market the first low-cost versions of the system this March.

Can Olivetti remake itself? Revenues from Telemedia's operations have to start taking off soon if Olivetti is to avoid the fate of other European computer makers, which have turned to major strategic partners to survive. "The problem is that many multimedia markets may be for the late '90s rather than the mid '90s," worries Peter Knox, computer analyst at UBS Philips & Drew, "and Olivetti needs help now. That means the new father-son team has a lot to do in very little time.

By John Rossant and Gail Edmondson in Milan

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Now that the forecasting model is up and running, Rosenthal and his staff are using the SAS System to build an interactive database. "The Power Information Network will allow an auto dealer or manufacturer to go online and get market information," Rosenthal explains. "When released, subscribers will be able to select from a long menu of reports and data. The versatility of the SAS System is crucial in developing the reports."

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IVESTIGATIONS

THE HEAT IN 'ETER CASERTA'S KITCHEN

an the former head of Spectrum shake his past?

t's dinnertime at Pasta Luna, a new cafeteria-style Italian restaurant Richmond, Va. Standing ar the kitchen is a bald-g, middle-aged man with s remaining gray hair und tightly in a short ny tail. "All fresh, home-ade ingredients," he tells customer. After he con-ides his amiable sales ch for the restaurant, he oclaims: "This may be e best Italian food in the untry."

Sure, it's hyperbole—but at's no surprise. The host none other than Peter T. serta, whose bold pro-uncements and alleged lf-truths transformed Spectrum In-mation Technologies Inc. into one of e top performers on the stock market er a year ago. Perhaps the greatest play of Caserta's talents was convinc-g former Apple Computer Inc. Chair-n John Sculley—who had also been mored to be in the running for the jobs at IBM and Motorola, to head e Manhasset (N. Y.) company that de-loped wireless transmission technolo-. Sculley quit four months later in bruary, 1994.

The Spectrum episode faded last ring after postal inspectors raided serta's former consulting firm, Caser-Group, arresting five executives and arging them with wire and mail fraud. l five have pleaded not guilty. Caser-has never been arrested or charged th anything.

AY FROM IT ALL. Now this corpo-e melodrama is about to have a sec-l act. In an expansion of the original S. Postal Service investigation, as ny as a dozen former employees and sociates of Caserta Group, later re-med Paradigm Group Inc., are ex-ted to be indicted by a federal grand y in coming weeks, according to rces familiar with the investigation. ese sources say they will likely be arged with collecting fees from small high-tech companies for investment banking services that were rarely delivered. Even though Caserta had sold the firm before the raid, the grand jury is looking at transactions that occurred during his tenure, these sources say. Caserta and his attorney declined to talk about Spectrum or the possibility of indictments.

AT PASTA LUNA: *"I'm just trying to put my life back together"*

TIM WRIGHT

Working in a small restaurant seems quite a comedown for Caserta, who pocketed $8.4 million by selling Spectrum shares as they soared on news of Sculley's arrival in late 1993. He resigned from Spectrum in June, 1994. "I moved to Richmond with my family to get away from all that stuff in New York," says Caserta, 52. "I'm just trying to put my life back together."

Caserta apparently moved to his wife's hometown in April. Then, last month, the self-described gourmet cook opened his restaurant in a strip shopping center. It's very much a family affair, as was Spectrum and Caserta Group. Pasta Luna is owned by PTW Group Co. Caserta's wife Terry, former treasurer of Caserta Group, is listed as president of the company, according to state records. Caserta's son, Peter Jr., a former vice-president of a Spectrum subsidiary, also works at the restaurant. PTW's liquor license application states that Pasta Luna could bring in monthly revenues of $115,000. "I'm no big shot," insists Caserta, who says he does everything from serving customers to working in the kitchen.

GOBBLED UP? It's unlikely he would continue to labor in anonymity if indictments are handed up. Sources familiar with the investigation claim the U. S. attorney's office in Brooklyn, N. Y., has been gathering evidence to flesh out a complaint it filed last March, alleging that the Caserta Group took in nearly $2 million a year in fees from small companies by falsely promising to find new investors for them. Caserta and his attorney declined to comment on the allegations.

The grand jury probe is not the only legal hassle awaiting Caserta. The Securities & Exchange Commission continues an investigation into whether Spectrum executives manipulated the company's stock. Neither the SEC nor Spectrum will comment on the investigation. Meanwhile, Spectrum shareholders are pressing a suit against Spectrum, Caserta, and Sculley, alleging stock-price manipulation and insider trading. All have denied any wrongdoing.

As for Spectrum, it filed for Chapter 11 bankruptcy protection on Jan. 22. Spectrum declines to discuss its current situation or Caserta. Still, it vows to resume profitable operations. Maybe so. But Heiko H. Thieme, chairman of the American Heritage Fund, Spectrum's largest shareholder, believes the company may "seek a strategic partner or be gobbled up by another company." Either way, Spectrum, like Caserta, is learning to survive amid humbler circumstances.

By Michael Schroeder in Richmond, Va.

Caserta's Résumé

1988

Founds Caserta Group to secure financing for high-tech startups

JULY 1992

Named Spectrum CEO after serving as director and vice-chairman

FEBRUARY 1995

Opens Pasta Luna, an Italian cafeteria-style restaurant in Richmond, Va.

BUDGETS

JUNE O'NEILL WON'T DANCE TO JUST ANY GOP TUNE

The Congressional Budget Office chief vows to stay independent

As a member of the ignored minority, Representative Richard K. Armey (R-Tex.) used to rail against the Congressional Budget Office as an agent of Democratic Big Government. "One of the biggest fictions in this town is that the CBO is nonpartisan," insisted Armey, himself an economist. But now the Texas lawmaker is House Majority Leader, and Republicans get to pick the CBO director, so they tapped an ideological soul mate for the powerful post: Baruch College economist June E. O'Neill, who describes herself as "conservative and market-oriented."

And there's little doubt that House GOP leaders expect a quick reversal of the CBO's supposed bias toward government spending. No sooner did O'Neill arrive at work on Mar. 6 than she was presented with a "congratulations" letter from House Speaker Newt Gingrich (R-Ga.) and House Budget Committee Chairman John R. Kasich (R-Ohio) demanding that the CBO no longer automatically factor inflation into its baseline forecasts of federal spending. "That way, the House will approach the federal budget as a family looks at its own budget, beginning with current spending, not anticipated increases," they insisted.

But if GOP deficit hawks and supply-siders believe they have found a new chef to cook the books with a sauce to their liking, they may be disappointed. In an interview with BUSINESS WEEK, the 60-year-old economist vowed to maintain the CBO's reputation for independence, an asset admired by most outside observers. "I've been assured by everybody, and explicitly by John Kasich, that they all want the honest truth," says O'Neill, the fourth director in the CBO's 20-year history.

Certainly, her past work as a labor economist tends toward the conservative end of the spectrum. O'Neill's research on gender-based wage differentials concluded that the choices that women make on entering and leaving the labor force—not sex discrimination—were the key factors behind unequal pay. As a result, she opposed "comparable-worth" policies on the grounds that raising wages for traditionally female jobs would reduce incentive to enter other occupations and mean an oversupply in women's fields, "making it still harder to find a stable solution to the problem."

In 1992, O'Neill's studies found that women narrowed the pay gap with men during the 1980s because of increased skills and higher education levels rather than affirmative action. As for race-based pay gaps, she wrote three years ago that "deprivations related to school, home, and neighborhood are more serious obstacles to the attainment of black-white equality in earnings than current labor-market discrimination." More recently, she and her husband, fellow economist David M. O'Neill, criticized the Clinton Administration's 1993 health-reform proposal, arguing that the mandate for employer health coverage would have triggered mass job losses in low-wage industries such as restaurants and construction.

"SOLID RESEARCH." But those conservative views haven't stopped O'Neill from winning kudos from Democrats—even some in the Clinton Administration. Isabel V. Sawhill, who recently left the Office of Management & Budget, recommended O'Neill as her replacement in charge of the Women & Family Policy program at the liberal-leaning Urban Institute in 1979, when Sawhill joined the Carter Administration. "We differed on some conclusions, but I always respected her," says Sawhill. "She's not a political animal—she's more an intellectual and a scholar."

Similar praise comes from Alice M. Rivlin, the CBO's first director and now head of the executive branch's OMB, the CBO's rival budget scorekeeper. Rivlin, who hired O'Neill in the 1970s as a staff economist at the CBO, says: "She's on the conservative side and a Republican but no extremist. She's got a good, long track record of solid research."

Indeed, it may be the Republicans who end up most surprised by O'Neill's views. Take the Bureau of Labor Statistics' monthly calculation of the consumer price index. Gingrich has threatened to "zero out" the BLS unless it quickly lowers its CPI estimates—a change that could save $150 billion in cost-of-living adjustments for Social Se

O'NEILL: A SCHOLAR WHO WINS KUDOS FROM SOME DEMOCRATS

WHERE O'NEILL STANDS

RACE Wage differentials between blacks and whites are more closely linked to unequal education and poor neighborhoods than to discrimination in hiring

GENDER The long-standing male-female wage gap was due largely to women having less education and training and fewer consecutive working years—rather than workplace bias

HEALTH CARE The Clinton health-care plan—even including a large federal subsidy to small business—would have resulted in perhaps 1 million lost jobs in such industries as restaurants and construction

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curity and other government programs over the next five years. The money would help the GOP cut the deficit and pay for tax cuts.

But as far as O'Neill is concerned, the CPI "is something that can never be [totally] fixed" because it is nearly impossible to adjust for quality changes and consumer buying habits. If politicians want to trim the COLA, they'll likely have to do it themselves by using an entirely new formula, O'Neill says.

SIDESTEP. Nor will she embrace "dynamic scoring," which in its extreme form implies that a cut in tax rates can actually increase tax collections by stimulating growth. Some House Republicans had hoped that the CBO would endorse the idea that the GOP's $189 billion tax-cut package would pay for itself. But she avoids the issue by noting that estimating revenues from tax-law changes is not the CBO's job but that of the Joint Committee on Taxation.

Not surprisingly, O'Neill wasn't the GOP's top candidate. The job was first offered to John F. Cogan, an economist at Stanford University's Hoover Institution, who turned it down. Among other mainstream economists making the final cut but not offered the job: Robert Glenn Hubbard of Columbia University, James M. Poterba at Massachusetts Institute of Technology, and James R. Barth at Auburn University. More radical economists—including true-blue supply-siders—were dropped after a group of economists led by former Federal Reserve Board Chairman Paul A. Volcker warned that attempts to calculate the macroeconomic effects of tax cuts were "an invitation to wishful thinking."

O'Neill appeared on Kasich's list as well as that of Senate Budget Committee Chairman Pete V. Domenici (R-N.M.), who opposed putting a supply-sider in the job. Eventually, she became the compromise choice. Despite her vows to remain independent and nonpartisan, the Senate Budget Committee's ranking Democrat, Senator J. James Exon (D-Neb.), remains suspicious. He opposed her selection, claiming O'Neill will accept "lock, stock, and barrel" some GOP supply-side notions.

So far, O'Neill plans to avoid choosing sides. Her immediate task is to upgrade CBO presentations with computer-generated graphics. "I believe in clarifying the presentation," she says. "When budget people talk to each other now, it's frequently incomprehensible." That may also mean changing assumptions for budget forecasting, as Gingrich and Kasich suggest. But O'Neill knows no computer software or new assumptions can make the deficit vanish—and she's ready to say that to anyone who listens.

By Paul Magnusson in Washington

ULRICH, WHO IS KEEPING HIS TITLE AS TARGET CEO, FIRED 10 TOP DAYTON HUDSON EXECS

STRATEGIES

'SPEED IS LIFE' AT DAYTON HUDSON

But can new Chairman Ulrich catch Wal-Mart?

If frustrated shareholders of Dayton Hudson Corp. were hoping to hear specifics from their newly named chairman-to-be at the retail company's annual meeting in Minneapolis last May, they were sorely disappointed. Robert J. Ulrich, anointed in a boardroom coup, didn't outline strategies to fatten the $21 billion company's anemic earnings, up just 5% in four years despite 45% growth in sales. Instead, Ulrich, head of Dayton's fast-growing Target discount chain, tossed around jargon about "delayering management" and creating a "boundaryless corporation." Then he left his audience to mull over one of his personal mantras—"Speed is life."

> Investors love the new sense of urgency, but heavy debt still weighs down the stock

Bewildered shareholders soon foun out what Ulrich, now 51, meant. Withi weeks of assuming office in July, he dis missed 10 top Dayton executives an launched a broad effort to transplan Target's keener merchandising and nim bler logistics to the troubled Mervyn midprice department-store chain. No did he forget the little things. Lase scanners on the selling floor, which hav long allowed Target customers to d their own price checks, soon appeared i some Mervyn's stores. "He [move quickly," says Boake A. Sells, forme Dayton president. "That's why he's ha such personal success."

SUPERCENTER DILEMMA. Investors, wh have seen Dayton stock languish for th past five years, loved Ulrich's sense urgency. The stock briefly hit 86 aft he took office. But now they want r sults—and fast. Their frustration understandable. Dayton's stock is no trading below 70 a share, less than 1990. If it enjoyed a typical retail mult ple of 15 times projected earnings, th stock would be more than 100 a shar analysts say. But a big debt burden ar stagnant sales in existing stores

lervyn's, which contributes more than a fth of Dayton's sales, have repeatedly ›rpedoed its shares. That has over-ıadowed Target's impressive string of 4% annual increases in revenue and ›nsistent growth in existing-store sales. arget helped push Dayton's sales up 1% last year, to $21 billion. Operating rofits hit $1.2 billion, up 9%.

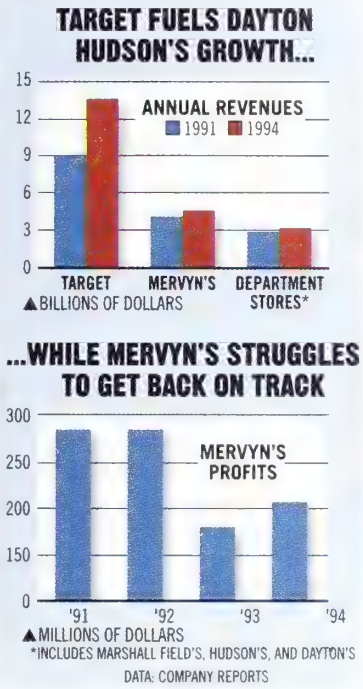
Ulrich's most pressing task, clearly, to fix Mervyn's. He also needs to evive Dayton Hudson's department-ore division, which includes Marshall ield's, Dayton's, and Hudson's stores, here margins are a healthy 8.6% but ıles are flat at $270 million. Even Ul-ch's biggest suc-ess—Target—stands a crossroads. Ul-ch must decide hether to follow Val-Mart Stores Inc. ıd Kmart Corp. into ıpercenters—giant ores offering grocer-s as well as general ıerchandise.

Ulrich, who joined ıe company as a ıerchandise trainee in 967, relies on an in-er circle of loyal fol-wers. But he's also eeply involved in op-rations: He kept his tle as chief executive Target and is de cto CEO of Mervyn's. lrich was groomed the company's flag-ıip Dayton's depart-ıent store but made is name at Target, here he carved out a niche for the 27-store chain as an upscale competitor Wal-Mart and Kmart, with better ap-arel and brighter stores.

ARTY SHOPS. Target, which started ith a fledgling store outside St. Paul 1962, now accounts for 64% of Day-n's $21 billion in revenue. In some high-competitive markets, such as Chicago ıd Dallas, consumers rate Target ahead Wal-Mart in critical areas such as qual-y, service, and store design—although it ill can't beat the No. 1 retailer on price. till, "no one besides Ulrich has been ›le to compete against Wal-Mart. That's ıpressive," says Scott M. Mullinex, re-ıil securities analyst with American Ex-ress Financial Advisors, which holds a 8% stake in Dayton.

Now, Ulrich, who declined repeated ıterview requests, needs to bring some that feistiness to Mervyn's. The 286-ore chain rebounded somewhat last ear from a disastrous promotions pro-ram in 1993 as well as a stubborn re-ession in its important West Coast market. Operating profits, which fell 37% two years ago, to $179 million, climbed part of the way back in 1994, to $206 million, but sales growth remains sluggish.

Mervyn's has long struggled with out-dated store designs and lackluster mer-chandise. In 11 Colorado test stores, Ulrich has added luggage, maternity wear, petites, and party shops with mer-chandise coordinated with children's ap-parel, a format that has done well at Target. Better ordering and distribu-tion systems—also transplanted from Target—should keep Mervyn's clothing more current. And Mervyn's President Paul Sauser, former Target merchandising guru, now reports di-rectly to Ulrich. But the chain is still far from robust. Mervyn's fourth-quarter sales in existing stores rose a paltry 2%, erasing a third-quarter decline. Meanwhile, it's facing increased competition from a revitalized Sears Roebuck and J.C. Penney, as well as from fast-growing Kohl's, a 108-store midprice chain based in Wisconsin.



URBAN EDGE. In the long run, though, the supercenter issue at Target could be the most important one facing Ulrich. Wal-Mart, with 147 supercenters, plans to build 100 more this year. Kmart will have 72 by yearend. Target will open its first two only this year. By going slow, Target risks ceding more ground to Wal-Mart, which already has built two centralized food-distribution centers. But Dayton, with a 64% debt-to-assets ratio, compared with just 53% at Wal-Mart, may be too heavily leveraged to catch up. And following Wal-Mart and Kmart into grocery supercenters might not make sense for Target after all. It does best in urban areas, where grocery-store competition is keener than in the small towns favored by Wal-Mart.

Can Ulrich keep all the Dayton balls in the air? Dayton's board is "very com-fortable with the fine job he's doing," says John R. Walter, a Dayton director and chief executive of R.R. Donnelley & Sons Co. But clearly there are doubters, as Dayton's stock price proves. Speed may be Ulrich's life, but he may still not be fast enough to suit Dayton's rest-less shareholders.

By Susan Chandler in Chicago

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THE BUSINESS WEEK 1000

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A BITTERSWEET YEAR FOR CORPORATE AMERICA

Profits zoomed and productivity soared. So why didn't market value rocket up?

After years of torrid expansion, Minneapolis-based Best Buy Co. thought it was sitting pretty in 1994. Sales of the personal computers, VCRs, and refrigerators it stocks in its 204 megastores kept cash registers humming. And a booming holiday season topped off Best Buy's strongest year ever: Revenues rose 78%, to $4.3 billion, while profits jumped 64%, to $51 million.

A good year? Apparently not good enough. An unimpressed Wall Street decided Best Buy wasn't such a hot buy after all. Its market value has slid 20%, to $917 million, over the past year. Investors knocked 26% off its stock in just one day, after third-quarter profits fell 13% below expectations. Best Buy got the hint: President Brad H. Anderson has begun preparing for the economic cool-down that many investors predict. He is trimming plans for store openings and squeezing inventories. "We're seeing a subtle slowdown in consumer spending," he says. Anderson is also counting on Best Buy's new "Concept III" stores, which feature larger selling floors and interactive computers rather than salespeople, to drive down costs.

It's a story repeated across much of Corporate America. Record profits. Strong sales gains. And a crushing, anticlimactic "so what?" from investors, who are betting that three years of boom times are drawing to a close. Despite the recent rally, which pushed the Dow Jones industrial average beyond 4000, seven interest-rate hikes by the Federal Reserve have given Wall Street the jitters. The economy is strong, and years of restructuring have put many companies in their best shape ever. But investors are offering little applause. Even top performers such as DuPont Co., which boosted

THE TOP 15 IN MARKET VALUE

	COMPANY	[illegible]	[illegible]
1	GENERAL ELECTRIC	$93.4	4%
2	AT&T	81.0	0
3	EXXON	79.3	–2
4	COCA-COLA	70.2	27
5	WAL-MART STORES	54.2	17
6	MERCK	52.9	30
7	PHILIP MORRIS	52.3	7
8	PROCTER & GAMBLE	45.6	16
9	IBM	44.3	44
10	DUPONT	38.2	6
11	MICROSOFT	36.6	56
12	JOHNSON & JOHNSON	36.5	41
13	MOBIL	34.5	10
14	MOTOROLA	33.8	14
15	INTEL	33.0	15

THE TOP 15 IN SALES

	COMPANY	[illegible]	[illegible]
1	GENERAL MOTORS	$155.0	12%
2	FORD MOTOR	128.4	18
3	EXXON	101.1	2
4	WAL-MART STORES	82.5	23
5	AT&T	75.1	8
6	MOBIL	67.1	5
7	IBM	64.1	2
8	GENERAL ELECTRIC	60.1	8
9	SEARS ROEBUCK	53.9	6
10	PHILIP MORRIS	53.8	6
11	CHRYSLER	52.2	20
12	DUPONT	39.3	6
13	CHEVRON	35.8	–3
14	KMART	34.0	–7
15	TEXACO	33.4	–2

profits 382%, to $2.7 billion, or GTE Corp., which increased income 148%, to $2.5 billion, ended with single-digit gains in market value.

And those were the standouts. The merely good often saw their stocks tumble. Consider Wal-Mart Stores Inc., which sank 17%, to $54.2 billion. All told, Wal-Mart shed $11 billion in market value last year—the biggest dollar decline of any public company. Sure, the nation's largest retailer posted sales gains of 23%, to $82.5 billion, and profits rose 15%, to $2.7 billion. But investors have come to expect better from Wal-Mart—and they fear it's now just buying growth with continued store openings.

COMING IN FOR A LANDING

How the best-managed companies are preparing for an economic slowdown

KEEP SPENDING ON MACHINERY AND NEW TECHNOLOGY In the long run, smart buys of new technology lead to big cost-savings, and more efficient manufacturing leads to lower costs and fatter margins.

DON'T ADD TOO MUCH CAPACITY Some companies particularly bruised in the last downturn figure it's better to lose some sales now rather than add capacity that won't be needed in a year or so.

DON'T FATTEN PAYROLLS Despite record profits, most companies resist adding staff. Instead, many outsource.

LOOK OVERSEAS Expanding overseas markets means that U.S.-based multinationals are not entirely at the mercy of the domestic economy.

AMASS PLENTY OF CASH Many companies are hoarding piles of cash. When the downturn comes, those with the strongest balance sheets will feel less pain.

PUNY GAIN. Such tales illustrate what a bittersweet year it was for this year's BUSINESS WEEK 1000, the annual roster of America's most valuable companies. The BW 1000 ranks the largest public companies by their market value as of Feb. 28. Overall, profits swelled 34%—the biggest gain since BUSINESS WEEK began compiling rankings a decade ago. Sales rose 8%, the best showing since 1990. But the market value of the BW 1000 rose only 5%, to $4.3 trillion—the worst gain since 1988. Even that puny rise is due to February's rally: In calendar 1994, the BW 1000's market value fell 0.2%.

Rarely have the market and corporate results diverged so widely. To underscore how stingy investors have been, consider the average correlation between profit and market-value gains in the last decade. This year, the BW 1000 had to produce a 6.8% profit increase to win a 1% uptick in market value. In the past, it has taken only a 0.5% profit gain to fuel each 1% jump in market value.

Even companies with strong track records of sustained earnings growth faced a tough slog in the market. General Electric Co. retained its No. 1 spot as America's most valuable corporation. But despite profits that rose 41%, to $5.9 billion, on sales growth of 8%, to $60.1 billion, GE's market value rose a measly 4%, due in part to price-fixing accusations at its industrial diamond unit and losses at Kidder, Peabody & Co. Those problems are behind GE now, but Sheldon Grodsky, research chief of New Jersey-based brokerage Grodsky Associates Inc. adds another: "The market has doubts about the sustainability of GE's growth."

That, writ large, is the story of this year's BW 1000. Oper-

THE TOP 15 IN PROFITS

	COMPANY	[illegible]	PERCENT CHANGE FROM [illegible]
1	GENERAL ELECTRIC	$5.9	41%
2	GENERAL MOTORS	5.7	129
3	FORD MOTOR	5.3	110
4	EXXON	5.1	–3
5	PHILIP MORRIS	4.7	32
6	AT&T	4.7	27
7	CHRYSLER	3.7	54
8	CITICORP	3.4	78
9	IBM	3.0	NM
10	MERCK	3.0	38
11	DUPONT	2.7	382
12	WAL-MART STORES	2.7	15
13	COCA-COLA	2.6	17
14	GTE	2.5	148
15	PROCTER & GAMBLE	2.4	301

THE TOP 15 IN ASSETS

	COMPANY	[illegible]	PERCENT CHANGE FROM [illegible]
1	FANNIE MAE	$272.5	26%
2	CITICORP	250.5	16
3	FORD MOTOR	219.4	10
4	BANKAMERICA	215.5	15
5	GENERAL ELECTRIC	194.5	–23
6	GENERAL MOTORS	193.9	7
7	SALOMON	173.0	6
8	NATIONSBANK	169.6	8
9	CHEMICAL BANKING	169.3	13
10	MERRILL LYNCH	163.7	7
11	J.P. MORGAN	154.9	16
12	LEHMAN BROS. HOLDINGS	121.2	NA
13	CHASE MANHATTAN	117.1	16
14	MORGAN STANLEY GROUP	116.0	18
15	TRAVELERS	115.3	14

PAPER BOOMS, BUT...

A surge in demand and limited capacity have brought sharp price increases, but papermakers such as Weyerhaeuser are still unwilling to add capacity. They are doing what they can to squeeze more production from the plants they have

ating results show Corporate America is in great shape after years of cost-cutting. Inflation, at 2.8%, remains low. Manufacturing productivity has soared 4.9% annually since 1993, while nonfarm productivity overall rose 2.3%. With wages in check, U.S. productivity far outstrips that of competing industrialized nations. And many in Corporate America say reports of the economy's imminent slowdown are greatly exaggerated. "There's plenty of steam left in this recovery," predicts David N. McCammon, Ford Motor Co. vice-president of finance.

Yet the near-stagnant market valuations reflect quite a different prediction. Wall Street believes the economy's much-anticipated "soft landing" is nigh. Lehman Brothers Inc. chief economist Allen L. Sinai blames the Federal Reserve: "Valuations were very poor for a simple reason: the ahistorical, unprecedented doubling of interest rates by the Fed." For that matter, he finds it remarkable that shares climbed at all in the face of the rate hikes: "It's testimony to the underlying health of the companies."

BLESSED FEW. Indeed, as the Fed tries to slow the economy from last year's 4% clip to a more sustainable 2.5%, forward-looking investors have become much pickier. Market value, after all, measures more than past performance; it's a collective assessment of how well a company is likely to do in the future. And signs of a slowdown are mounting. Car inventories have built up, prompting both Ford and Chrysler Corp. to announce the temporary idling of manufacturing plants, as well as big rebates. Growth in construction, home purchases, and retail spending have all weakened.

Investors today are clearly favoring only those companies likely to continue growing even if the overall economy slows. That's the case for a blessed handful of companies, for which 1994 wasn't a topsy-turvy year at all. Most were in the technolog sector, where demand for semiconductors, computers, ar related equipment shows no signs of letting up. Hewlet Packard, Intel—and even IBM—saw big gains in sales profits rewarded with run-ups in market value. But Microso Corp. was the star. The smash software hit Microsoft Offic helped fuel a 26% rise in earnings, to $1.3 billion, on a 28 sales gain, to $5.3 billion. With PC sales still booming—ar Microsoft providing a growing share of the software inside the company isn't bracing for any kind of landing at all.

Indeed, with its long-awaited Windows 95 operating syste due out in August, Microsoft should see similar sales grow in fiscal 1996, which starts in July—and it plans to boo R&D and marketing even faster than re enues. "We're big spenders," says M chael W. Brown, vice-president for nance. "Even if there's a slowdow those investments will continue." W Street clearly approves: Microsoft's ma ket value soared 56%, to $36.6 billion.

Elsewhere, Wall Street keeps raisi the bar of what marks a good year, a the best managers—many of whom a now partially compensated according stock performance—are looking for wa to cope. Many have begun to batt down the hatches, whether it's for a s landing of moderate growth, or the ha landing of recession.

How are the best-managed compani preparing for a slowdown? For starte they're refusing to get complacent. Ma continue to invest in technology th keeps productivity improving. A flu Merck & Co. saw its market value s 30%, largely thanks to better distributi of its drugs via its new Medco subsi ary, and subsiding fears of health-c reform. But the drugmaker knows th market pressures will continue

THE TOP MARKET-VALUE WINNERS

COMPANY	MARKET VALUE	DIFFERENCE FROM LAST YEAR
	MILLIONS OF DOLLARS	
COCA-COLA	$70,176	$14,872
IBM	44,261	13,520
MICROSOFT	36,603	13,173
VIACOM	15,953	12,526
MERCK	52,877	12,280
JOHNSON & JOHNSON	36,490	10,691
BERKSHIRE HATHAWAY	26,240	8,040
PFIZER	26,127	7,513
HEWLETT-PACKARD	29,325	6,405
PROCTER & GAMBLE	45,619	6,347
ABBOTT LABORATORIES	28,680	5,997
MOTOROLA	33,810	5,358
AMERICAN INTL. GROUP	32,792	4,920
INTEL	33,048	4,311
ORACLE SYSTEMS	13,482	3,911

DATA: STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK

ueeze prices. "The pricing environ-
ent is quite intense," says chief finan-
l officer Judy C. Lewent. So it is in-
sting in technology to lower costs.
erck is adopting "flexible manufactur-
g" which will allow it to make more
an one product per line. Along with
ner productivity measures—such as
proving supply-chain management and
e transfer of technology between re-
arch and manufacturing—Merck ex-
cts to save $250 million by 1997.

For many cyclical industries, though,
tting shipshape means tightening the
on spending. At Clark Equipment
., a South Bend (Ind.) heavy-equip-
nt maker that's spent years stream-
ing, senior vice-president Frank Sims
vs it's being cautious about adding
ployees or capacity despite explosive
94 results: Earnings grew 114%, to
2.8 million, on sales of $947 million,
37%. Instead, it is outsourcing pro-
ction now that can be brought back
house when the boom passes. "We
ve probably been willing to lose some
es at the peak in order to reduce the
plitude of the cycle," he says. "What things will look like in
downturn is much more a part of our thought process."

ARDING CASH. Weyerhaeuser Co. is also loath to add capac-
though the paper industry is in the midst of its biggest
m since 1988. A surge in demand and limited capacity has
to steep increases in prices. A metric ton of pulp that cost
0 in January 1994 fetches about $825 today. But the com-
y announced only one new paper-plant expansion in 1994—
n though CEO John W. Creighton Jr. expects the up cycle
ast until 1997. Instead, he's improving the yield his plants
from each log, and streamlining production to squeeze
e out of current plants. Creighton's goal is to improve op-
ting income, which was $1.2 billion in 1994, by more than
ird to provide more cushion for the next downturn.

Many are hoarding cash so they won't have to slash R&D or
ital spending when times get tough. Chrysler has a $7.6
on cash pile, while Ford's kitty of cash and marketable se-
ities hit a stun-
g $12.1 billion at
end of 1994.
h can evaporate
slump, though,
Ford CEO Alex-
er J. Trotman
its more. "Ex-
cash is an oxy-
on," he says.
till, not all of
cash will be
ed for a rainy
Although the
ble-digit spend-
boom of the last
years is over,
tal investment,
by the auto
ers and the
puter industry,
till expected to
v 7% this year.
d, for example,
oving full-steam

THE TOP MARKET-VALUE LOSERS

COMPANY	MARKET VALUE	DIFFERENCE FROM LAST YEAR
	MILLIONS OF DOLLARS	
WAL-MART STORES	$54,202	-$11,026
PACIFIC TELESIS GROUP	12,722	-10,335
GENERAL MOTORS	32,124	-9,822
CHRYSLER	15,401	-4,762
FORD MOTOR	26,595	-4,405
J.C. PENNEY	9,733	-3,193
TOYS 'R' US	7,737	-2,831
NEXTEL COMMUNICATIONS	1,250	-2,612
ENTERGY	5,088	-2,567
SPRINT	10,194	-2,512
PACIFIC GAS & ELECTRIC	11,025	-2,486
SOUTHWEST AIRLINES	2,525	-2,347
BANC ONE	1,612	-2,173
UAL	1,179	-2,126
TIMES MIRROR	2,379	-2,042

DATA: STANDARD & POOR'S COMPUSTAT, BUSINESS WEEK

in its push to overtake General Motors Co. as the biggest auto maker. Ford will spend upwards of $20 billion on increased capacity and new models by the decade's end. "This cycle will last through 1998," predicts finance chief McCammon. It's a risky move, especially considering the Big Three's poor track record foreseeing economic downturn. "They are clearly placing one hell of a bet," says management consultant Michael Treacy, author of *The Discipline of Market Leaders*. That's one reason why Wall Street put the brakes on Ford's market value, which fell 14% last year even as profits more than doubled to $5.3 billion.

Many companies are also expanding aggressively abroad, well aware that foreign sales can mean the difference between salvation and slump if U.S. markets slow. And for companies with big overseas operations already, the plummeting dollar is good news: Their goods will be comparatively cheaper, and repatriated profits will be higher.

International muscle is the key reason the fortunes of Coca-Cola Co. now appear so much better than those of rival PepsiCo Inc. With 68% of its sales already garnered abroad, Coke is intensifying its international push. It has strengthened marketing in much of Western Europe and is spending heavily to build bottling capacity in once-closed markets in Eastern Europe, China, India, and Russia. In Eastern Europe alone, Coke has spent $1.5 billion since 1991. It's gone from having virtually no presence in Eastern Europe to being market leader, decimating rival Pepsi-Cola along the way. Meanwhile, PepsiCo's stock has been depressed by troubles in its U.S. restaurant business. Such distractions allow Coke to pull farther ahead. "There's no way they can catch us" overseas, crows Coke CEO Roberto C. Goizueta. "A hundred billion dollars will not build [Pepsi] the infrastructure the Coca-Cola Co. has today."

Goizueta's bluster reflects a very good year. Coke's international sales shot up 18% in 1994, while U.S. sales increased

GREG GIRARD/CONTACT

COLA WARS

More international muscle is the key reason the fortunes of Coca-Cola appear to be so much brighter than those of rival PepsiCo. In Eastern Europe alone, Coke has spent $1.5 billion since 1991

15%. That fueled a 17% rise in profits, to $2.6 billion, on revenues up 16%, to $16.2 billion. With Coke's strength abroad likely to buffer any U.S. slowdown, its market value soared 27%, to $70.2 billion. Overall, Coke's market value grew $14.9 billion—the biggest gain of the BW 1000.

Still, not everyone is looking so far afield for new markets; many companies are fighting for position in promising new sectors being created by technology at home. Nowhere is that more true than in telecommunications, where everyone from traditional phone companies to cable-TV providers to Hollywood moguls are scrambling for position. Uncertainty over the eventual winners, not to mention the huge risks of entering new markets, has kept stock prices for the entire sector under pressure. After Bell Atlantic Corp.'s proposed merger with cable giant Tele-Communications Inc. was scuttled, for example, much of the hype over its stock fizzled, sending market value down 2%, to $23.4 billion.

But Bell Atlantic is hardly licking its wounds. It's put its core local-telephone business on a diet of cost-cutting: 9% of its 60,000 employees will be laid off by 1997. And it's also pushing hard to build new businesses, such as its booming $1 billion cellular services unit. Bell Atlantic plans to invest huge sums—some $2.2 billion annually through 1999—on upgrading its telephone network with new digital switches and adding facilities for interactive video and wireless communications services. "We're still seeing [cellular] growth rates on the far north side of 50%," says CFO William O. Albertini. As a new generation of personal-communications service evolves in the coming years, "You'll see the same [growth] occur."

For now, however, such new sectors offer far larger potential than profits. Most of Corporate America will have to settle for

AUTO SLOWDOWN

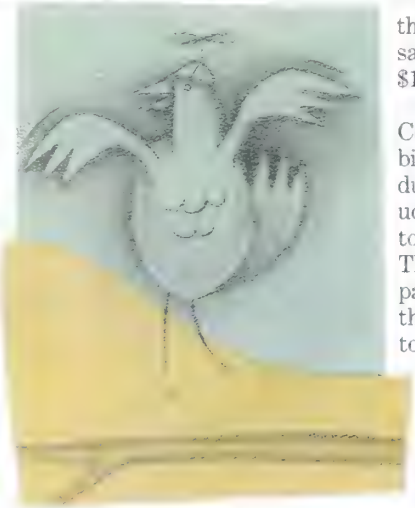
Both Ford and Chrysler have recently announced fattened rebates and the idling of manufacturing plants as car sales slow and inventories build up

...AND, IN THE BANTAMWEIGHT DIVISION...

What in the world is Broderbund Software Inc.? Thanks to its hit games—especially *Where in the World is Carmen Sandiego?*—a growing number of people know the answer to that question. And if sharp-eyed investors are right, the 15 other companies on the next page may likewise become a lot less obscure. They are the Little Giants of the BUSINESS WEEK 1000—public companies with sales of less than $150 million but with market values hefty enough to join the roster of America's most valuable companies.

Broderbund, based in Novato, Calif., is one of the most adept players in one of the hottest markets now going: educational and entertainment software. *Carmen Sandiego*, which teaches kids geography through the cartoon adventures of an international thief, is so popular that both Fox Broadcasting and PBS have created television shows based on it. And Broderbund's interactive fantasy *Myst* has become the best-selling CD-ROM game in America. Such hits helped propel Broderbund's market value up 164%, to $1 billion in the year ended Feb. 28, despite last May's collapse of a planned merger with Electronic Arts Inc.

WILD RIDE. With a host of new titles due this fall—including a Dr. Seuss "living book" being produced in a joint venture with Random House Inc.—analysts expect even more. "This little software company has a huge following because it has a very consistent track record of developing superb games," says David T. Farina, an analyst at William Blair & Co. He predicts earnings will rise 95%, to $36.5 million by the end of fiscal 19 sales growth of 76 $195 million.



Another Little G Centocor Inc., is a bird in the biotech dustry: It has real ucts that are on o to coming to mark The Malvern (Pa.) pany is faring bett than most rivals t to recent Food & Administration proval of its Re drug for heart tients, which it leased last mont Panorex cancer is now selling in Germany and U.S ing is underway. Analysts also cre restructuring in 1992, after the FDA jected a key drug. Few thought th company would survive, but new r agement refocused on manufacturi

bout 10% profit growth in 1995, redicts economist Sinai. While lightly above average by hisoric standards, that's far from he 26% companies have averged since 1992—and whether t will be enough to satisfy inestors remains to be seen.

Yet even as corporate titans omplain that strong operating esults warrant better treatnent by the market, Sinai says ew are sharing the wealth with hareholders by raising diviends. Average dividend yields or the BW 1000 remain low, nd the average return—the tock price plus the dividend, ivided by the previous year's rice—was just 8% last year. 'he average return for the BW 000 for the prior eight years as been 22%. Having cut diviends during the recession, any are reluctant to raise em. Instead, they favor stock epurchases to boost share pricis. "If CEOs are concerned bout the dichotomy between rofits and valuation," says Sai, "one way [to close the gap] a dividend increase in cash-rich Corporate America."

If that's not an option, more might consider borrowing a age from Hollywood, where companies looking to pump eir shares have raised the traditional courting of institution- investors and equities analysts to a high art. Viacom Inc. is eing particularly aggressive. It needs to get its stock price up to 48—and keep it there—under the conditions of its complicated acquisition of Paramount Communications and Blockbuster Entertainment. But despite strong cash flow and a huge windfall from the success of the movie *Forrest Gump*, Viacom's difficulties in selling its cable business knocked the stock to around 45. So in late February, the company invited key institutional shareholders and analysts to a three-day, all-expenses-paid meeting at the tony Four Seasons Santa Barbara Biltmore Hotel in Southern California.

The gambit apparently paid off. The stock soon climbed to near the crucial 48. If Viacom can keep it there—and boost it to 52 by summer as promised—the company is in the clear. But if it falls short, Viacom will have to issue new shares worth hundreds of millions. "We don't anticipate issuing any shares," says CFO George S. Smith Jr.

Maybe not. But wringing four more points out of investors could be tough. As even companies turning in stellar performances are discovering, the market is a lot like Forrest Gump's box of chocolates these days: You never know just what you're going to get.

By Elizabeth Lesly in New York, with Joseph Weber in Philadelphia, James B. Treece in Detroit, and bureau reports

THE UNDERVALUED 15

Companies with the lowest ratio of market value to book value compared with other companies in their industries, ranked by value index

COMPANY	MARKET VALUE (MILLIONS OF DOLLARS)	MARKET VALUE AS % OF BOOK	VALUE INDEX*
FHP INTERNATIONAL	$1,073	95	69.3
ALBERTO-CULVER	781	234	57.4
TELEPHONE & DATA SYSTEMS	2,476	171	51.9
IBP	1,506	193	51.8
ADVANCED MICRO DEVICES	2,898	167	51.5
HANNAFORD BROTHERS	1,076	244	51.4
FISERV	1,028	303	50.7
COMPUTER SCIENCES	2,702	312	49.1
REVCO D.S.	1,222	168	41.7
AMERICAN GREETINGS	2,185	192	41.0
SHARED MEDICAL SYSTEMS	789	369	40.0
XTRA	852	258	38.2
HEALTH & RETIREMENT	832	135	38.0
MEDIA GENERAL	828	248	36.4
ALLERGAN	1,838	305	35.8

*Index is the percentage by which a company's market-to-book value is below its industry's average. companies must also have had three straight years of improving earnings.

DATA COMPILED BY STANDARD & POOR'S COMPUSTAT FROM SUCH SOURCES AS STATISTICAL SERVICES, NEWSPAPERS, REGISTRATION STATEMENTS, AND COMPANY REPORTS THAT SPC BELIEVES TO BE RELIABLE BUT THAT ARE NOT GUARANTEED BY EITHER SPC OR *BUSINESS WEEK* AS TO CORRECTNESS OR COMPLETENESS. THIS MATERIAL IS NOT AN OFFER TO BUY OR SELL ANY SECURITY

nd farmed out sales and market- Eli Lilly & Co. and Wellcome PLC. or now says it hopes to be profit- is year, although most analysts 996 is a more likely bet. CS First Corp. analyst Jeffrey R. Swarz venues could soar 169%, to $181 by 1997.

UTS. Not all Little Giants are ch wizards. Credit Acceptance n Southfield, Mich., has discovlucrative low-end niche financing r purchases for high-risk buyers to get credit. Credit Acceptance interest rates well above the nd acts as its own collection And it has a unique relationship alers: They pay up-front fees to Credit Acceptance network, ceive stock options based on the of buyers they refer to the y. It adds up to supercharged –$20.6 million net on $54 million revenues. With Credit Accepapidly expanding its dealer netnalyst Michael G. Milunovich of W. Baird & Co, sees earnings g to $42 million in 1996.

l fry make it to this list because the market expects great things of them. But the market is sometimes disappointed. A case in point: the wild ride taken by shareholders of Nextel Communications Inc., which has topped the list of Little Giants for three years running. Nextel first won investors' favor in 1992 with ambitious plans to build a nationwide cellular phone system. Nextel's market value on the 1993 BW 1000: $1.4 billion. The following year—after MCI Communications Corp. agreed to buy 17% of Nextel—its market value tripled, to $3.9 billion. But when technical problems and poor voice quality led MCI to back out last August, investors bailed as well. Though many think Nextel will eventually succeed, its market value plunged 68% in the 12 months ended Feb. 28, to $1.3 billion.

Nextel is not alone. Of this year's roster of 16 companies, 6 lost money in 1994. And 2 of last year's Little Giants fell off the BW 1000 altogether. On the other hand, 7 vaulted past the $150 million sales threshold. Proof, if ever it was needed, that high rewards and high risk go hand in hand.

By Lori Bongiorno in New York

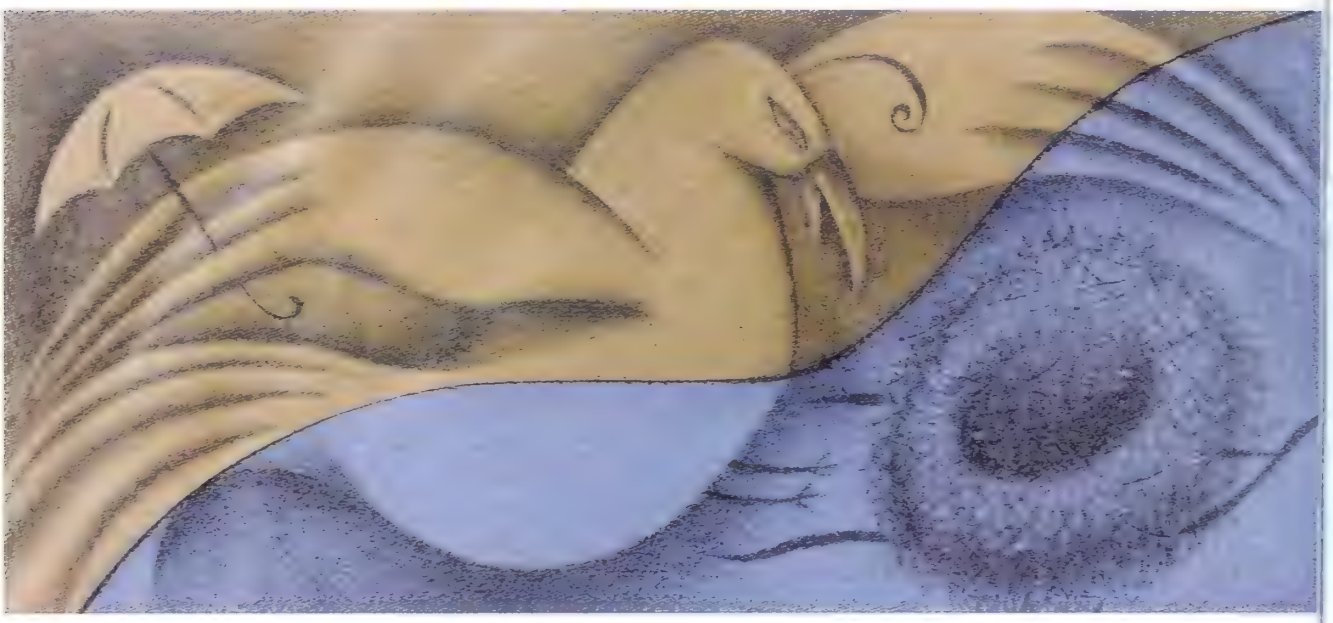
THE LITTLE GIANTS

*Companies with high market values and sales below $150 million**

COMPANY	MARKET VALUE (MILLIONS OF DOLLARS)	1994 SALES (MILLIONS OF DOLLARS)
NEXTEL COMMUNICATIONS	$1,250	$89
TRITON ENERGY	1,109	32**
CENTOCOR	1,088	67
BRODERBUND SOFTWARE	1,022	132
GENETICS INSTITUTE	956	131
FORE SYSTEMS	944	58
WESCO FINANCIAL	897	98
CASCADE COMMUNICATIONS	880	50
PEOPLESOFT	832	113
PYXIS	813	142
BOSTON CHICKEN	805	96
MOBILE TELECOMMS. TECHS.	795	148
CREDIT ACCEPTANCE	793	54
ROBERTS PHARMACEUTICAL	748	111
INTERNATIONAL CABLETEL	724	13
ALLIANCE SEMICONDUCTOR	717	95

*Excludes real estate investment trusts ** Seven months of sales

DATA: STANDARD & POOR'S COMPUSTAT



LAURELS FOR LONG-DISTANCE RUNNERS

A worried Wall Street is rewarding companies that can keep growing in a slowdown

For much of Corporate America, 1994 will go down as a very good year indeed. As booming demand combined with the effects of years of earlier downsizing, 1994 offered up the strongest entry yet in the four-year upturn coursing through the U.S. economy. Although the Federal Reserve Board has doubled U.S. short-term interest rates, to 6%, over the past 12 months, gross domestic product continued to barrel ahead by 4.6% in the fourth quarter—well above the 3.3% growth seen at the start of the year. And as the combined profits of the BUSINESS WEEK 1000 rose 34% last year, to $274 billion, on sales up a healthy 9%, to $4.5 trillion, proof of continued corporate health was abundant.

But Wall Street took little time to celebrate the good news. With gross domestic product finally starting to slow—it's likely to hit 2.5% to 3% in 1995's first quarter—and perhaps one more rate hike likely, investors are worried about what lies ahead. As Fed attempts to bring the soaring economy in for a soft landing finally yield results, corporate profit growth is sure to slow.

The pages that follow offer an in-depth look at what th could mean for America's most valuable companies. The BU NESS WEEK 1000, which ranks companies by market value, more than a measure of how Corporate America has far over the past year. Because market value reflects a collecti judgment about a company's prospects, it's a prediction.

There are many other measures in the BW 1000, too.

AVERAGES

SHARES OUTSTANDING	[illegible]	1994 EARNINGS PER SHARE	$2.03
YEAR AGO	[illegible]	1993 EARNINGS PER SHARE	$2.26
TURNOVER	98.4%	1995 ESTIMATE	$2.68
YEAR AGO	[illegible]	VARIATION	[illegible]
YIELD	2.19%	HELD BY INSTITUTIONS	[illegible]
YEAR AGO	2.13%	YEAR AGO	[illegible]
PRICE	$[illegible]	PAYOUT	[illegible]
YEAR AGO	$[illegible]	YEAR AGO	[illegible]
PRICE-TO-BOOK	[illegible]	PRICE-EARNINGS RATIO	20
YEAR AGO	317%	YEAR AGO	22

COMPOSITES

MARKET VALUE (BILLIONS)	$4.33
CHANGE FROM A YEAR AGO	+5
RETURN ON COMMON EQUITY	15.4
YEAR AGO	12.8
RETURN ON INVESTED CAPITAL	11
YEAR AGO	9.3
SALES (BILLIONS)	$4.49
CHANGE FROM 1993	+9
PROFITS (BILLIONS)	$27
CHANGE FROM 1993	+34
ASSETS (BILLIONS)	$10,14
CHANGE FROM 1993	+8
1994 PROFIT MARGINS	6.1
1993 PROFIT MARGINS	4.9

WHAT'S BEST IS NEVER UNDERSTOOD BEFORE IT HAPPENS

$29 GAP KHAKIS

as worn by Harold Evans
President & Publisher
Random House Trade Group
Photographed
by Richard Avedon

DO
YOUR
BEST. WORK
IN
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WHAT'S BEST IS HIDDEN, OBVIOUS, AND CORRECT

$29 GAP KHAKIS

Cursor by Robyn and Rand Miller, creators of Myst CD-ROM game. Photographed by Rachel Arredondo.

WHAT'S BEST IS ALWAYS UNDERSTOOD BY ITS RESULTS

S29 GAP KHAKIS

GAP
KHAKIS

rested in sales, profits, and asset performance over the st year? They're all here. And if it's investments you're outing for, the right-hand pages provide details of divi- nds, yield, payout, and total return. There are also con- nsus estimates by analysts for 1995 earnings.

Stand back from the individual statistics, and the up- avals and transformations on the BW 1000 provide a mpse of the outlook for specific industries and a sweeping rtrait of the changing U. S. economy as a whole. The auto akers, for example, turned in their strongest year ever. General Motors rp., profits more an doubled to $5.7 lion on sales that se 12%, to $155 bil- n. U. S. auto makers e predicting that 95 will be at least as ong. But recent ns of slowing car es have bolstered ll Street's view that e Big Three can't ep it up. The result: 's market value mmeted 23%, to .1 billion, as it slid m No. 7 to No. 18. rd Motor Co., mean- ile, fell from No. 14 No. 27; Chrysler rp. dropped from .35 to No. 52.

JUMP. Who is fly- high? Continued minance of the soft- re industry helped crosoft Corp. shoot the list to the .11 spot from .27 as its market ue soared 56%, to .6 billion. IBM's re- n to the black—it g up $3 billion in 4 profits—was dsomely rewarded, . Big Blue's market ue leaped 44%, to .3 billion, one of the gest gains of the r. And Johnson & nson advanced to 12 from No. 23 as market value bed 41%, to $36.5 on. The company is ng a wave of win- g products such as new Risperdal zophrenia drug and Acuvue disposable tact lenses.

nce-tiny biotech pany Amgen Inc. scooted up, to No. 93 from No. 163. Amgen's market value grew 64%, to $9.2 billion. Although earnings fell 15%, to $320 million, double-digit sales growth of its two blockbuster drugs, Epogen and Neupogen, have fed strong cash flow—and even stronger takeover speculation.

Some of the biggest leaps in rank occurred well down the list. The biggest gainer in this year's rankings was LSI Logic Corp. The custom chipmaker went from No. 823 to No. 319 as its market value grew 227%, to $3.1 billion. Two years into a restructuring that has slashed its dependence on the crowded PC market, LSI is booming thanks to its targeting of lucrative niche markets such as video games and networking products.

Some erstwhile high-fliers had their wings clipped by an unforgiving market. Although profits at Toys 'R' Us Inc. jumped 11%, to $497.5 million, on a 13% sales leap, its market value tumbled 27%, to $7.7 billion. Blame it on increased price competition from discounters such as Wal-Mart Stores Inc. and Kmart Corp., which has led to stagnating sales in existing stores and forced the toy retailer to hike marketing spending .

A DIVE. Southwest Airlines Co. was another big loser. The low-cost carrier sank to No. 384 from No. 208 as its market cap plummeted 48%, to $2.5 billion. It faced far sharper price competition on its short-haul routes from the new United Shuttle. It also spent much of 1994 digesting Morris Air.

Among industries, computer software and services scored the largest advance, while makers of computers, peripherals, and semiconductors also hit it big. Strong computer sales—led by the booming PC market—helped, and many companies are also benefiting from a broad industry move to networks of smaller computers. Hewlett-

Looking At The Record

Like the dynamic economy they reflect, the fortunes of the Business Week 1000 are everchanging. Here's a quick way to gauge how growth, renewal, and decline have reshaped the corporate landscape over the last 12 months.

WHO CAME ON THE LIST...

Industries with the most newcomers on the list this year

INDUSTRY	NO.
COMPUTER SOFTWARE & SERVICES	8
SEMICONDUCTORS	7
COAL, OIL & GAS	3
FINANCIAL SERVICES	3
GENERAL MANUFACTURING	3
SPECIAL MACHINERY	3
OTHER METALS	3
DISCOUNT & FASHION RETAILING	2
OTHER SERVICES	2
STEEL	2
TRANSPORTATION SERVICES	2

...AND WHO FELL OFF

Industries with the most companies disappearing from the list this year

INDUSTRY	NO.
ELECTRIC UTILITIES	–5
APPAREL	–4
BUSINESS MACHINES & SERVICES	–4
TRUCKING & SHIPPING	–4
COMPUTERS & PERIPHERALS	–3
EATING PLACES	–3
ENTERTAINMENT	–3
BEVERAGES	–2
GAS UTILITIES	–2
ELECTRICAL PRODUCTS	–2
AUTO PARTS & EQUIPMENT	–2
AIRLINES	–2
CONSTRUCTION & ENGINEERING	–2

WINNERS...

The market value of these industry groups grew the most from last year

INDUSTRY	MARKET VALUE DIFFERENCE (MILLIONS OF DOLLARS)
COMPUTER SOFTWARE & SVCS	$41,231
DRUGS & RESEARCH	39,264
MEDICAL PRODUCTS	24,073
COMPUTERS & PERIPHERALS	24,043
SEMICONDUCTORS	22,247
ELECTRONICS	20,349
BROADCASTING	15,812
TELECOMMUNICATIONS	14,139
FINANCIAL SERVICES	13,593
COAL, OIL & GAS	13,392
PAPER	13,159
BEVERAGES	11,171
PERSONAL CARE	10,515
BANKS–MIDWEST	9,611
INSURANCE	8,431
FOOD PROCESSING	7,462
SPECIAL MACHINERY	5,502
MISCELLANEOUS SERVICES	4,737
MISCELLANEOUS LEISURE	4,642
HEALTH-CARE SERVICES	4,491
TOBACCO	4,230
BANKS–WEST & SOUTHWEST	3,950
BANKS–SOUTH & SOUTHEAST	3,697
PAPER CONTAINERS	3,357
GENERAL MANUFACTURING	3,146

...AND LOSERS

The market value of these industry groups dropped the most

INDUSTRY	MARKET VALUE DIFFERENCE (MILLIONS OF DOLLARS)
DISCOUNT & FASHION RETAILING	–$24,818
CARS & TRUCKS	–20,264
ENTERTAINMENT	–16,547
TELEPHONE COMPANIES	–13,663
ELECTRIC UTILITIES	–13,235
FOREST PRODUCTS	–10,072
AIRLINES	–5,366
PUBLISHING	–4,881
BUSINESS MACHINES & SERVICES	–4,873
EATING PLACES	–4,824
RAILROADS	–4,437
TRUCKING & SHIPPING	–4,237
INDUSTRIAL DISTRIBUTION	–3,485
APPAREL	–3,387
AUTO PARTS & EQUIPMENT	–2,634

DATA STANDARD & POOR'S COMPUSTAT

Packard Co. climbed the ranks to No. 23 from No. 29 as its market cap leaped 28%, to $29.3 billion. Booming orders for its PCs, minicomputers, and engineering workstations swelled profits 43%, to $1.8 billion, on a 24% sales increase.

Even the flap over Intel Corp.'s flawed Pentium chip, which led to a $475 million charge and flattened earnings, couldn't dim its luster: Intel's market value soared 15%, to $33 billion. Strong demand for PCs should boost sales around 30% in 1995.

TAKEOVER RUMORS. Drug companies and medical-products makers also posted healthy gains as the fading prospect of health-care reform appeared to raise prospects for price increases. Pfizer Inc. was among the industry's best performers; its market value soared 40%, to $26.1 billion, thanks to successful new drugs including the antidepressant Zoloft. The rising industry tide was enough to lift even the laggards: Although Bristol-Myers Squibb Co.'s profits slumped 6%, to $1.8 billion, its market value jumped 11%, to $31.4 billion. While its top-seller, the cardiovascular drug Capoten, shows lackluster growth and it has few hot new drugs, takeover speculation has boosted shares.

On the other side of the coin, discount and fashion retailers were last year's biggest losers. Slumping women's apparel sales hurt, and warm Christmas weather offered little yearend cheer. That helped cut J.C. Penney Co.'s market value 25%, to $9.7 billion, while The Limited's market value fell 10%, to $6.3 billion. And troubled discounter Kmart's market value fell 25%, to $5.8 billion.

Telephone companies also got hit because of uncertainty over telecommunications-reform legislation pending in Congress. Analysts are also worried about the prospect of price wars in the long-distance sector. AT&T saw profits up 27%, to $4.7 billion, though its market value remained flat at $81 billion, while BellSouth Corp., the biggest of the Baby Bells, saw its 109% earnings increase rewarded with a tiny 6% gain in market value, to $29.2 billion. Meanwhile, Sprint Corp.'s value decreased 20%, to $10.2 billion, because of additional uncertainty over whether plans will be authorized for France Telecom and Deutsche Telekom to buy into Sprint.

For the winners and losers alike on this year's roster, the market's relentless logic was clear. It's like that old disclaimer you see in all the investment ads: Past performance is no guarantee of future results.

By Lori Bongiorno in New York with bureau reports

> Computer and drug companies were among the winners, discount and fashion retailers were big losers

Glossary

MARKET VALUE
Share price on Feb. 28, 1995, multiplied by latest available common shares outstanding

PROFITS
Net income from continuing operations before extraordinary items

MARGINS
Profits as a percent of sales

RETURN ON INVESTED CAPITAL
Profits plus minority interest and interest expense (adjusted by tax rate) as a percent of debt and equity funds

RETURN ON COMMON EQUITY
Net income available for common shareholders divided by common equity

ASSETS
Total assets as reported at end of company's latest available 1994 quarter

RECENT SHARE PRICE
Price for a single share of a company's most widely traded issue of common stock as of the close of trading Feb. 28, 1995

HIGH LOW PRICE
Trading range for company's common stock, February, 1994, to February, 1995

BOOK VALUE PER SHARE
Sum of common stock, capital surplus, and retained earnings divided by most recently available common shares outstanding

P-E RATIO
Price-earnings ratio based on 1994 earnings and Feb. 28 stock price

YIELD
Annual dividend rate as a percent of Feb. 28 stock price

PAYOUT
Latest annualized dividend rate as a percent of the company's most recent annual earnings per share

TOTAL RETURN
Annual dividend per share plus latest available month-end price, as a percent of year-ago month-end price per share

INSTITUTIONAL HOLDINGS
Percent of outstanding shares of stock held by banks, colleges, pension funds, insurance companies, and investment companies as calculated by Vickers Stock Research Corp.

SHARES OUTSTANDING
Millions of common shares outstanding as of the company's latest available financial report

TURNOVER
Percent of outstanding common shares changing hands in the latest year

EARNINGS PER SHARE
Primary earnings per share, excluding extraordinary profit or loss, divided by number of common and common equivalent shares

EARNINGS PER SHARE ESTIMATES
Analysts' consensus estimates for 1995 compiled as of Feb. 23 by I/B/E/S International Inc., New York (I/B/E/S is a registered trademark of I/B/E/S International Inc.)

VARIATION
Percentage by which two-thirds of the 1995 earnings estimates are above or below the average estimate as calculated by I/B/E/S

FY
Number of the month in which company's fiscal year ends

DATA
Unless otherwise indicated, all data in the following BW 1000 tables have been provided by Standard & Poor's Compustat, a division of McGraw-Hill Inc.

Footnotes

(a) Latest available data. **(b)** Actual and estimated figures are fully diluted. **(c)** Estimated earnings data. **(d)** Earnings data from I/B/E/S. **(e)** Earnings data from S&P ACE. **(x)** Sales include excise taxes. **(y)** Sales include other income. **(z)** Sales include excise taxes and other income. **NA**=not available. **NM**=not meaningful. **NR**=not ranked in BUSINESS WEEK 1000 in 1994. **NEG**=negative book value per share. **DEF**=earnings deficit in dividend payout. † Because BUSINESS WEEK is owned by McGraw-Hill, the BUSINESS WEEK 1000 does not include a forecast of the company's earnings. †† Data do not include full 12 months' results. Note: Data compiled by Standard & Poor's Compustat from sources such as statistical services, registration statements, and company reports that SPC believes to be reliable but that are not guaranteed by SPC or BUSINESS WEEK as to correctness or completeness. This material is not an offer to buy or sell any security. Additional data: I/B/E/S, I/B/E/S International, Vickers Stock Research Corp.

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TEXAS INSTRUMENTS

THE BUSINESS WEEK 1000

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
				YEAR AGO RANK	12 MONTHS $ MIL	CHANGE FROM 1993	12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994	12 MONTHS 1993	ON INVESTED CAPITAL	ON COMMON EQUITY	12 MONTHS $ MIL
1	GENERAL ELECTRIC	93402	4	1	60108y	8	5915.4	41	9.8	7.5	18.1	22.0	194484
2	AT&T	81000	0	3	75094	8	4710.0	27	6.3	5.3	NA	28.2	79252
3	EXXON	79298	–2	2	101092y	2	5100.0	–3	5.0	5.3	NA	13.8	87790
4	COCA-COLA	70176	27	5	16172	16	2554.0	17	15.8	15.7	38.0	45.6	13873
5	WAL-MART STORES	54202	–17	4	82494	23	2681.0	15	3.3	3.5	14.7	22.2	34493
6	MERCK	52877	30	8	14970	43	2997.0	38	20.0	20.6	23.1	26.6	21857
7	PHILIP MORRIS	52317	7	6	53776	6	4725.0	32	8.8	7.0	19.1	37.0	52649
8	PROCTER & GAMBLE	45619	16	9	31572	5	2430.0	301	7.7	2.0	18.4	24.1	27337
9	INTERNATIONAL BUSINESS MACHINES	44261	44	15	64052	2	3021.0	NM	4.7	NM	10.2	13.7	81091
10	DUPONT	38211	6	10	39333z	6	2727.0	382	6.9	1.5	16.6	22.2	37914
11	MICROSOFT	36603	56	27	5266	28	1307.0	26	24.8	25.2	29.5	29.5	5961
12	JOHNSON & JOHNSON	36490	41	23	15734	11	2006.0	12	12.8	12.6	25.5	28.7	14833
13	MOBIL	34452	10	11	67111y	5	1759.0	–16	2.6	3.3	8.9	10.1	41760
14	MOTOROLA	33810	19	17	22245	31	1560.0	53	7.0	6.0	18.9	20.5	17536
15	INTEL	33048	15	16	11521	31	2288.0	0	19.9	26.1	24.6	25.3	13272
16	AMERICAN INTERNATIONAL GROUP	32792	18	20	22442y	11	2175.5	13	9.7	9.5	NA	13.4	114559
17	GTE	32210	4	13	19944	1	2451.0	148	12.3	5.0	13.3	24.2	42500
18	GENERAL MOTORS	32124	–23	7	154951y	12	5658.6	129	3.7	1.8	12.1	55.5	193871
	ELECTRONIC DATA SYSTEMS	18486	16	NR	10052	17	821.9	14	8.2	8.5	17.1	20.2	8787
	GM HUGHES ELECTRONICS	15046	5	NR	14062	5	1079.6	17	7.7	6.9	13.4	14.1	14850
19	BRISTOL-MYERS SQUIBB	31388	11	18	11984	5	1842.4	–6	15.4	17.2	27.1	29.9	12910
20	CHEVRON	31036	10	19	35844y	–3	1595.0	26	4.5	3.4	NA	11.1	34994
21	PEPSICO	31007	–1	12	28472	14	1784.0	12	6.3	6.3	15.9	26.0	24718
22	AMOCO	29473	14	22	26979y	5	1789.0	–2	6.6	7.1	10.7	12.6	28811
23	HEWLETT-PACKARD	29325	28	29	26613	24	1833.0	43	6.9	6.0	17.4	17.7	20187
24	BELLSOUTH	29214	6	21	16845	6	2159.8	109	12.8	6.5	11.9	15.0	34297
25	ABBOTT LABORATORIES	28680	26	30	9156	9	1516.7	8	16.6	16.6	36.4	38.3	8356
26	WALT DISNEY	27974	9	24	10630	20	1224.2	60	11.5	8.6	NA	22.2	12826
27	FORD MOTOR	26595	–14	14	128439	18	5308.0	110	4.1	2.3	NA	25.1	219350
28	BERKSHIRE HATHAWAY	26240	44	38	4127a	34	851.6	94	20.6	14.3	7.1	7.5	21335
29	PFIZER	26127	40	39	8281	11	1298.4	97	15.7	8.8	29.0	31.3	10402
30	SBC COMMUNICATIONS	25354	8	26	11619	9	1648.7	15	14.2	13.4	14.6	20.5	26248
31	AMERITECH	23644	8	33	12570	6	1170.4	–23	9.3	12.8	11.7	14.5	19942
32	BELL ATLANTIC	23402	–2	25	13791	5	1401.9	–5	10.2	11.3	13.2	22.1	24272
33	McDONALD'S	23066	8	34	8321	12	1224.4	13	14.7	14.6	NA	18.6	13600
34	MINNESOTA MINING & MFG.	22984	2	32	15079	8	1322.0	5	8.8	9.0	NA	19.6	13496
35	AMERICAN HOME PRODUCTS	21865	18	37	8966	8	1528.3	4	17.0	17.7	NA	37.2	8070
36	FANNIE MAE	21040	–7	31	18574y	16	2141.3	5	11.5	12.7	7.5	23.3	272508
37	HOME DEPOT	20345	9	36	12477	35	604.5	32	4.8	5.0	14.9	18.4	5778
38	ELI LILLY	19364	19	43	5712	10	1185.1	155	20.7	8.9	19.4	8.9	14507
39	DOW CHEMICAL	18579	6	41	20015y	11	938.0	46	4.7	3.6	9.9	11.3	26545
40	US WEST	18187	1	40	10953	6	1426.0	200	13.0	4.6	14.3	21.2	23204
41	ATLANTIC RICHFIELD	17891	11	44	15035	–13	919.0	242	6.1	1.6	11.1	14.8	24563
42	BANKAMERICA	17863	16	48	15324	5	2176.0	11	14.2	13.4	NA	12.2	215475
43	CITICORP	17779	11	45	28968	0	3422.0	78	11.8	6.6	NA	22.6	250489
44	GILLETTE	17494	28	57	6070	12	698.3	64	11.5	7.9	27.0	37.7	5494
45	EASTMAN KODAK	17328	22	55	13687	6	554.0	–14	4.0	5.0	NA	13.6	15068
46	SEARS, ROEBUCK	17323	8	46	53920	6	1259.0	–48	2.3	4.7	9.9	13.5	91896
47	AMERICAN EXPRESS	16675	16	54	14282	1	1380.0	–14	9.7	11.3	18.6	20.5	97006
48	NYNEX	16625	8	49	13307	–1	792.6	NM	6.0	NM	NM	9.3	30078
49	TEXACO	16431	–2	42	33353y	–2	979.0	–22	2.9	3.7	8.5	9.9	25600
50	VIACOM	15953	365	257	7363	267	130.5	–23	1.8	8.5	1.2	0.5	27956

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P.

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
	BOOK			PAYOUT	TOTAL RETURN	HOLDING	OUT	TURN						
56/45	348	16	3.00	47	7	55	1706	33.1	12	2.59	3.46	3.87	1.0	Conglomerates
57/47	485	17	2.56	44	1	33	1569	34.4	12	2.94	3.01	3.57	3.1	Telecommunications
66/56	217	16	4.70	74	3	41	1241	24.3	12	4.21	4.07	4.18	4.3	Fuel
55/39	1252	28	1.42	39	31	55	1276	31.0	12	1.68	1.98	2.34	1.3	Consumer products
29/21	448	20	0.72	15	–16	29	2282	29.4	01	1.02	1.17	1.41	2.1	Retailing
43/28	470	18	2.83	50	34	48	1248	52.1	12	1.87	2.38	2.67	2.2	Health care
65/47	409	11	5.43	61	14	56	861	67.4	12	4.06	5.45	6.31	1.7	Consumer products
67/51	473	22	2.11	45	18	48	686	28.6	06	0.25	3.09	3.69	2.2	Consumer products
78/51	207	15	1.33	20	44	46	588	102.0	12	–14.02	5.02	6.89	8.3	Office equipment
62/51	312	14	3.35	47	9	45	681	39.3	12	0.83	4.00	4.75	6.1	Chemicals
65/40	826	34	0.00	0	53	41	581	177.5	06	1.58	1.88	2.28	1.8	Office equipment
60/36	522	18	2.04	37	44	62	643	46.2	12	2.74	3.12	3.48	2.0	Health care
89/72	204	20	3.91	79	15	54	396	41.7	12	5.07	4.28	5.99	3.8	Fuel
65/42	444	22	0.70	15	13	68	588	101.1	12	1.78	2.65	3.28	4.6	Electrical
81/56	365	15	0.30	5	16	71	414	286.6	12	5.20	5.24	7.05	6.5	Electrical
107/82	202	15	0.44	7	19	54	316	39.3	12	6.04	6.87	7.50	1.6	Nonbank financial
34/30	319	13	5.63	74	8	40	965	35.5	12	1.03	2.55	2.57	1.9	Telecommunications
63/36	334	7	1.88	13	–25	46	754	91.3	12	2.13	6.20	7.92	5.7	Automotive
40/32	453	22	1.36	30	18	28	482	27.5	12	1.51	1.71	1.98	2.0	Office equipment
39/31	193	13	2.45	33	8	17	400	13.1	12	2.30	2.79d	2.77	1.4	Electrical
62/50	509	17	4.78	82	17	49	507	46.0	12	3.80	3.62	4.87	1.6	Health care
48/40	217	19	3.88	76	14	45	652	40.4	12	1.95	2.45	3.14	5.1	Fuel
40/29	451	18	1.84	32	2	58	793	56.3	12	1.96	2.22	2.39	1.7	Consumer products
64/51	208	17	4.04	67	18	61	496	37.5	12	3.66	3.60	4.15	6.5	Fuel
118/72	283	19	1.04	20	28	58	255	82.2	10	4.65	6.14	8.67	3.8	Office equipment
64/51	203	14	4.69	63	11	30	496	26.6	12	2.08	4.35	4.44	1.1	Telecommunications
36/25	725	19	2.14	41	31	52	808	34.9	12	1.69	1.87	2.11	1.4	Health care
54/38	508	26	0.56	15	12	46	524	58.0	09	1.23	2.04	2.50	2.8	Leisure
33/25	133	5	3.98	21	–13	62	1018	80.5	12	2.28	4.97	5.43	6.3	Automotive
200/15150	230	55	0.00	0	44	15	1	3.1	12	656.00	405.00e	435.00	NM	Nonbank financial
83/53	629	20	2.51	50	46	67	315	62.8	12	2.05	4.19	4.82	2.1	Health care
44/39	315	15	3.80	58	10	36	609	28.7	12	2.39	2.74	3.03	2.0	Telecommunications
44/36	294	20	4.66	94	12	35	551	22.1	12	2.78	2.13	3.28	2.4	Telecommunications
58/48	369	17	5.15	86	3	32	436	26.4	12	3.39	3.21	3.82	1.0	Telecommunications
34/26	365	20	0.72	14	10	59	694	57.9	12	1.46	1.68	1.92	1.0	Leisure
57/46	341	18	3.43	60	7	70	420	35.1	12	2.91	3.13	3.61	1.4	Manufacturing
72/55	532	14	4.20	60	25	64	306	39.4	12	4.73	4.97	4.80	5.0	Health care
90/68	229	10	3.53	35	–4	86	273	80.3	12	7.44	7.80	8.59	1.0	Nonbank financial
50/39	620	34	0.36	12	8	55	453	61.0	01	1.01	1.32	1.72	1.7	Retailing
67/47	364	14	3.85	55	26	66	289	60.9	12	1.67	4.66d	4.40	4.1	Health care
79/59	226	20	3.88	77	9	61	277	69.0	12	2.33	3.37	6.09	10.8	Chemicals
44/35	270	12	5.52	68	0	43	469	38.5	12	1.13	3.14	2.85	2.8	Telecommunications
10/93	288	19	5.02	98	14	60	163	52.7	12	1.66	5.63	6.71	8.2	Fuel
50/38	113	9	3.82	35	15	60	371	74.1	12	4.76b	5.33	5.97	2.7	Banks
48/36	131	7	2.67	19	10	74	395	120.2	12	3.53b	6.40	6.16	5.4	Banks
80/60	950	25	1.27	32	30	72	221	46.9	12	1.92	3.14	3.66	0.8	Consumer products
54/41	427	31	3.14	97	22	63	340	73.7	12	1.44	1.65	3.40	4.7	Leisure
52/42	190	16	3.25	51	11	66	352	69.2	12	6.22	3.16	5.49	4.4	Retailing
35/25	250	13	2.68	34	31	76	496	78.4	12	3.17	2.68	3.05	3.9	Nonbank financial
40/33	194	21	6.01	125	12	37	424	33.7	12	–0.66	1.89	3.21	3.1	Telecommunications
67/58	184	19	5.02	93	3	58	258	55.9	12	4.47	3.43	4.02	7.7	Fuel
47/22	148	NM	0.00	0	58	28	357	54.0	12	1.30	0.25	0.68	51.4	Publishing/TV

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	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
			1994			CHANGE	12 MONTHS 1994	CHANGE	MARGIN 12 MONTHS 1994	MARGIN 12 MONTHS 1993	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	12 MONTHS 1994
51	BOEING	15724	–1	47	21924	–14	856.0	–31	3.9	4.9	7.6	8.9	21433
52	CHRYSLER	15401	–24	35	52200y	20	3713.0	54	7.1	5.5	23.5	34.0	49539
53	COLUMBIA/HCA HEALTHCARE	15024	4	51	11132	9	745.0	30	6.7	5.6	10.5	15.4	11839
54	EMERSON ELECTRIC	14766	2	52	8882	8	835.3	0	9.4	10.2	19.3	19.2	8728
55	TIME WARNER	14643	2	53	7396	12	–91.0	NM	NM	NM	NM	–8.6	16771
56	ANHEUSER-BUSCH	14601	10	59	12054	5	1032.1	74	8.6	5.2	15.8	23.2	10972
57	SCHERING-PLOUGH	14578	26	70	4657	7	922.0	12	19.8	19.0	47.2	50.1	4411
58	NATIONSBANK	13788	4	60	12910y	26	1690.0	30	13.1	12.7	NA	15.8	169604
59	SCHLUMBERGER	13777	–1	56	6697	0	536.1	–8	8.0	8.7	11.9	11.7	8322
60	MCI COMMUNICATIONS	13685	–8	50	13338	12	795.0	27	6.0	5.3	7.8	8.8	16366
61	CAPITAL CITIES/ABC	13632	33	75	6379	12	679.8	45	10.7	8.2	15.0	16.8	6301
62	ORACLE SYSTEMS	13482	41	88	2378	40	339.3	72	14.3	11.7	37.5	41.2	1744
63	SOUTHERN	13466	2	61	8297	–2	1075.9	–2	13.0	12.9	9.0	12.2	26270
64	AIRTOUCH COMMUNICATIONS	13386	16	73	1136	15	98.1	145	8.6	4.1	NA	2.9	4259
65	WMX TECHNOLOGIES	13091	10	68	10097	11	784.4	73	7.8	5.0	9.4	17.2	17324
66	TELE-COMMUNICATIONS	12992	22	83	4476a	11	42.0	NM	0.9	NM	2.0	1.3	19117
67	PACIFIC TELESIS GROUP	12722	–45	28	9235	0	1136.0	495	12.3	2.1	14.1	21.7	20139
68	SARA LEE	12631	18	78	16668	11	260.0	–65	1.6	4.9	7.0	7.1	11966
69	ALLSTATE	12357	6	69	21460	2	483.8	–63	2.3	6.2	NM	5.5	61369
70	TRAVELERS	12304	1	67	18465	178	1325.5	39	7.2	14.3	13.0	15.8	115300
71	J. P. MORGAN	12107	–8	62	8379	13	1215.0	–29	14.5	23.2	NA	13.2	154917
72	KELLOGG	12006	4	71	6562	4	705.4	4	10.8	10.8	29.1	39.2	4661
73	XEROX	11729	16	84	15088y	6	794.0	NM	5.3	NM	9.2	17.7	38999
74	BANC ONE	11612	–16	63	7857y	3	1005.1	–14	12.8	15.4	13.7	13.1	88923
75	CAMPBELL SOUP	11276	7	80	6937	3	689.0	16	9.9	8.8	27.6	29.8	5409
76	PACIFIC GAS & ELECTRIC	11025	–18	58	10447	–1	1007.5	–5	9.6	10.1	7.6	10.9	27924
77	ALLIEDSIGNAL	10724	–1	77	12817	8	759.0	16	5.9	5.5	20.2	27.1	11321
78	UNION PACIFIC	10716	–13	66	7798	6	958.0	34	12.3	9.7	NA	19.5	15898
79	GENERAL RE	10664	20	100	3837	8	665.3	–5	17.3	19.6	NA	13.5	20854
80	FEDERAL HOME LOAN MORTGAGE	10484	4	85	6923	27	1027.0	31	14.8	14.4	4.0	NA	106199
81	CATERPILLAR	10348	–6	74	14328	23	955.0	40	6.7	5.9	18.7	34.1	16250
82	ITT	10303	–10	72	23620	12	852.0	29	3.6	3.1	NA	14.1	100900
83	WARNER-LAMBERT	10297	21	103	6417	11	693.9	143	10.8	4.9	36.8	39.6	5533
84	SPRINT	10194	–20	65	12662	11	883.7	84	7.0	4.2	NA	20.0	14477
85	CHEMICAL BANKING	9806	4	91	12685y	2	1294.0	–18	10.2	12.6	NA	12.4	169334
86	ARCHER DANIELS MIDLAND	9740	16	105	12176	18	643.6	37	5.3	4.5	10.1	11.7	9625
87	J. C. PENNEY	9733	–25	64	20380	7	1057.0	12	5.2	5.0	13.8	19.5	16200
88	H. J. HEINZ	9713	18	108	7367a	2	551.9	–4	7.5	8.0	14.8	23.6	7093
89	GENERAL MILLS	9566	8	99	8428	2	463.4	–10	5.5	6.2	18.4	33.6	5635
90	INTERNATIONAL PAPER	9547	6	96	14966	9	432.0	49	2.9	2.1	5.9	5.7	17697
91	COLGATE-PALMOLIVE	9314	–4	86	7588	6	580.2	6	7.6	7.7	17.9	30.5	6142
92	RAYTHEON	9276	11	104	10013	9	596.8	–14	6.0	7.5	14.5	13.9	7211
93	AMGEN	9171	64	163	1648	20	319.7	–15	19.4	27.3	21.7	24.2	1892
94	COMPUTER ASSOCIATES INTERNATIONAL	9160	52	154	2455	19	377.8	11	15.4	16.6	27.6	28.7	3004
95	MAY DEPARTMENT STORES	9066	–17	76	12223y	6	782.0	10	6.4	6.2	14.0	20.1	9472
96	COMPAQ COMPUTER	9005	8	106	10866	51	867.0	88	8.0	6.4	23.1	23.6	6166
97	MONSANTO	8876	0	98	8272	5	622.0	26	7.5	6.3	16.6	21.1	8891
98	CISCO SYSTEMS	8817	–3	92	1540	66	326.2	35	21.2	26.0	30.3	31.5	1358
99	NORFOLK SOUTHERN	8803	–8	89	4581y	3	667.8	22	14.6	12.3	11.5	14.1	10588
100	BAXTER INTERNATIONAL	8787	40	149	9324	5	596.0	NM	6.4	NM	12.8	16.3	10002

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PA

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
LOW $	BOOK VALUE	P-E RATIO	YIELD	PAYOUT	RETURN	HOLDING	OUT MIL	OVER	FY	ACTUAL $	ACTUAL $	EST $	ATION	
50/43	164	18	2.17	40	1	53	341	60.6	12	3.66	2.51	2.06	9.7	Aerospace & defense
61/43	144	4	3.69	16	–22	64	355	162.5	12	6.77	10.11	10.43	5.6	Automotive
45/34	310	19	0.29	6	–3	63	362	70.2	12	1.70	2.13	2.92	2.1	Health care
67/56	340	16	2.60	43	5	66	223	35.9	09	3.15	4.04	3.98	1.8	Electrical
44/32	1223	NM	0.93	DEF	2	56	379	62.4	12	–0.75	–0.27	–0.07	271.4	Publishing/TV
57/49	328	14	2.84	41	16	60	259	39.4	12	2.17	3.91	4.26	0.9	Consumer products
79/55	791	16	2.60	42	35	70	186	71.5	12	4.23	4.82	5.41	1.5	Health care
57/43	130	8	4.01	33	6	60	276	69.6	12	5.00	6.12	6.81	1.9	Banks
63/50	301	26	2.11	54	2	60	242	55.4	12	2.40	2.21	2.63	6.1	Fuel
28/17	152	15	0.25	4	–26	57	680	113.5	12	1.12	1.32	1.56	3.2	Telecommunications
90/66	336	20	0.23	5	33	84	154	45.2	12	2.85	4.42	4.95	3.0	Publishing/TV
32/18	1639	33	0.00	0	43	42	430	186.6	05	0.64	0.96d	1.29	3.9	Office equipment
22/17	166	14	5.92	80	6	29	653	31.3	12	1.57	1.52	1.66	2.4	Utilities
31/20	389	NM	0.00	0	15	53	494	56.2	12	0.09	0.20	0.34	14.7	Telecommunications
30/23	287	16	2.27	37	10	57	496	62.2	12	0.93	1.62	1.85	2.2	Services
25/18	437	NM	0.00	0	–4	63	571	106.4	12	–0.02	0.10d	0.20	70.0	Publishing/TV
56/28	243	11	7.27	81	1	40	424	46.7	12	0.46	2.68	2.77	2.2	Telecommunications
27/19	400	60	2.58	155	21	46	479	46.4	06	1.40	0.44	1.62	1.2	Food
28/23	141	25	2.62	67	9	97	449	17.9	12	2.95	1.08	3.03	7.3	Nonbank financial
40/30	156	10	2.06	21	6	75	317	61.2	12	3.88	3.86	4.36	6.2	Nonbank financial
68/55	133	11	4.65	50	–1	67	188	72.4	12	8.48	6.02	6.40	8.0	Banks
61/47	667	17	2.67	46	10	73	222	31.4	12	2.94	3.15	3.41	2.3	Food
113/91	294	16	2.71	45	17	89	106	78.5	12	–2.46	6.73	8.83	7.5	Office equipment
38/24	155	12	4.24	51	–10	50	397	55.8	12	2.93	2.42	3.21	2.5	Banks
46/34	487	18	2.73	49	10	25	249	22.9	07	1.02	2.51	2.78	1.4	Food
33/21	126	12	7.65	89	–13	42	430	40.4	12	2.33	2.21	2.85	3.5	Utilities
40/30	383	14	2.06	29	1	70	283	48.5	12	2.31	2.68	3.09	1.3	Conglomerates
61/44	218	11	3.29	37	–10	67	205	55.6	12	3.43	4.66	4.54	3.3	Transportation
33/102	219	16	1.47	24	25	82	82	62.2	12	8.11	7.97	8.77	2.6	Nonbank financial
63/47	238	11	1.79	20	6	82	181	59.2	12	4.07	5.32	5.77	1.9	Nonbank financial
61/50	370	11	1.94	21	–4	75	200	110.8	12	3.36	4.70	5.48	5.8	Manufacturing
00/77	177	14	2.03	28	11	76	106	89.8	12	6.87b	6.98d	9.08	5.1	Conglomerates
87/60	588	15	3.40	50	24	77	135	81.2	12	2.11	5.17	5.55	0.7	Health care
40/26	231	12	3.42	40	–18	65	349	65.7	12	1.39	2.53	2.66	3.8	Telecommunications
41/34	105	9	4.39	38	12	73	244	91.6	12	5.63	4.64	6.11	2.5	Banks
21/14	177	20	0.53	11	16	52	516	45.1	06	0.99	0.93	1.35	5.2	Food
59/40	187	10	3.92	39	–19	83	227	72.4	01	3.79	4.29	4.50	2.2	Retailing
41/31	415	17	3.66	62	25	59	247	45.9	04	2.35	2.33d	2.57	1.9	Food
62/49	694	17	3.10	51	12	63	158	58.7	05	2.95	3.67d	4.15	1.9	Food
81/61	148	23	2.20	50	7	71	125	105.3	12	2.34	3.38d	7.31	13.5	Paper
65/50	508	17	2.54	43	1	61	144	73.3	12	3.38	3.82	4.16	2.4	Consumer products
71/61	216	16	2.13	33	16	75	132	53.6	12	5.11	4.51	6.41	1.7	Electrical
70/35	694	30	0.00	0	65	60	133	270.6	12	2.61	2.29	3.71	1.6	Health care
58/27	695	17	0.35	6	56	59	160	105.7	03	2.34	3.39d	3.99	3.8	Office equipment
45/32	238	12	2.85	34	–14	73	248	52.3	01	2.77	3.06	3.39	3.5	Retailing
44/30	245	11	0.00	0	5	78	261	302.1	12	1.82	3.23	3.71	3.8	Office equipment
87/67	301	15	3.18	47	7	68	112	81.0	12	4.10	5.32	6.02	3.2	Chemicals
41/19	851	28	0.00	0	–8	75	261	421.7	07	0.67	1.19	1.67	1.8	Office equipment
69/59	186	14	3.15	42	–1	62	133	40.5	12	3.94	4.90	5.42	1.7	Transportation
32/22	240	15	3.37	49	41	70	282	60.1	12	–0.97	2.13	2.30	1.7	Health care

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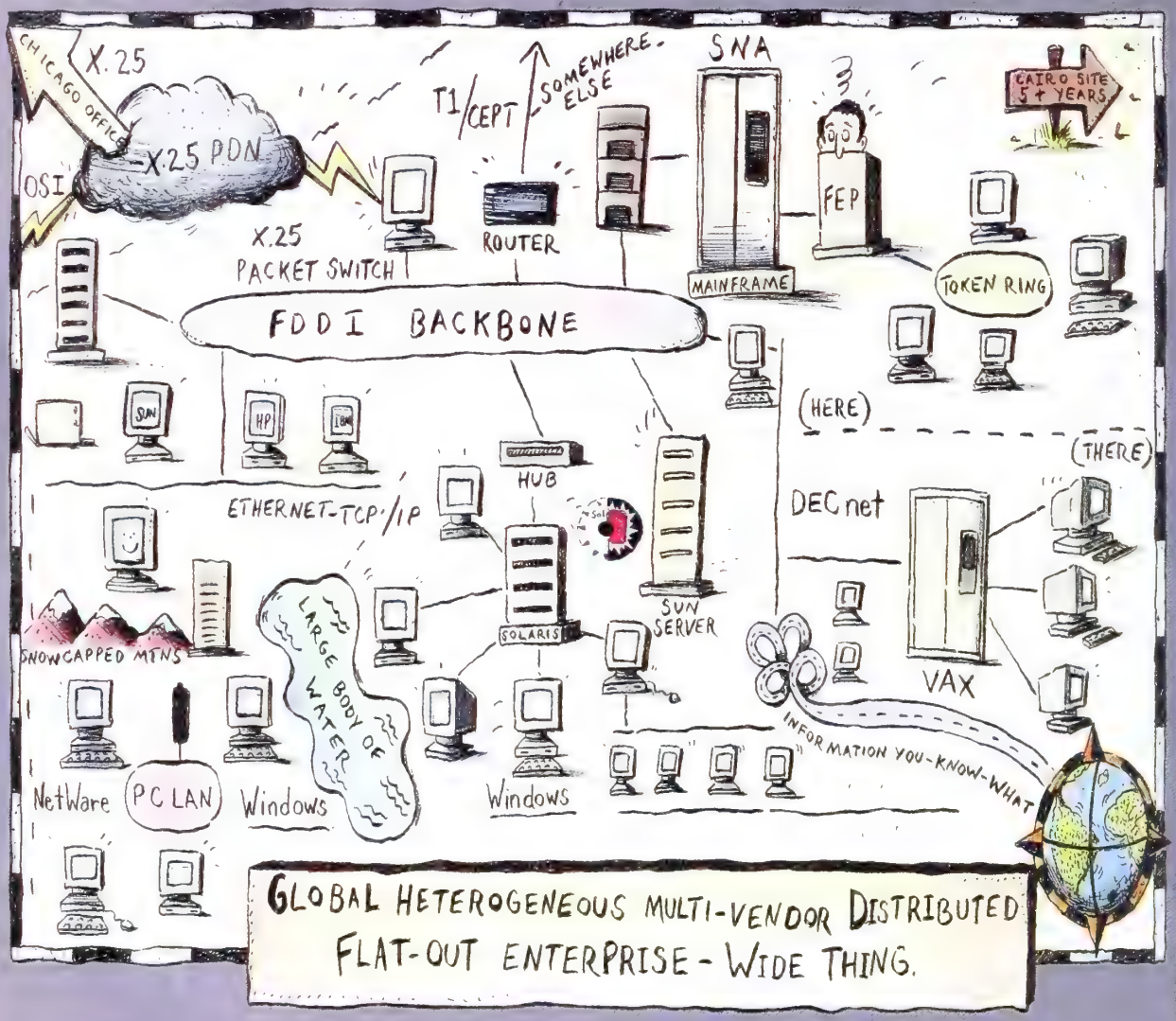
	COMPANY	MARKET VALUE			SALES		PROFITS		MARGIN		RETURN		ASSETS
			CHANGE FROM 1994	1 YEAR AGO RANK	12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994 %	12 MONTHS 1993 %	% INVESTED CAPITAL	% ON COMMON EQUITY	12 MONTHS 1994 $ MIL
101	DUN & BRADSTREET	8787	-15	82	4896	4	629.5	47	12.9	9.1	52.1	52.1	5305
102	PHILLIPS PETROLEUM	8732	23	125	12211	-1	484.0	98	4.0	2.0	9.8	16.4	11436
103	AUTOMATIC DATA PROCESSING	8692	20	123	2634y	13	359.1	16	13.6	13.3	17.7	20.6	2778
104	TENNECO	8565	-10	90	12174	-1	641.0	55	5.3	3.4	NA	21.2	12654
105	WELLS FARGO	8479	10	116	4965y	2	841.0	37	16.9	12.6	13.7	22.6	52164
106	WEYERHAEUSER	8379	-14	87	10398	9	588.7	12	5.7	5.5	9.0	14.1	13007
107	ROCKWELL INTERNATIONAL	8370	-9	93	11145	2	649.3	11	5.8	5.3	14.5	19.2	12188
108	KIMBERLY-CLARK	8325	-6	97	7364	6	535.1	5	7.3	7.3	17.3	19.8	6773
109	UNITED TECHNOLOGIES	8173	-5	102	21197y	1	585.0	20	2.8	2.3	NA	14.4	15624
110	CSX	8142	-11	94	9608	7	652.0	82	6.8	4.0	13.6	17.5	13724
111	CONAGRA	8125	20	135	24004	7	462.2	17	1.9	1.8	12.0	18.3	12516
112	ENRON	8059	5	117	8904	12	472.7	41	5.3	4.2	10.7	16.1	12042
113	DUKE POWER	8041	2	112	4489	5	638.9	2	14.2	14.6	9.1	12.9	12862
114	NORWEST	7959	16	131	6061y	9	800.4	31	13.2	11.0	NA	22.2	59316
115	CPC INTERNATIONAL	7870	7	121	7425	10	345.1	-24	4.6	6.7	NA	20.3	5668
116	AMP	7866	18	138	4027	17	369.0	24	9.2	8.6	15.0	15.9	3771
117	FIRST UNION	7856	12	127	6220y	10	925.4	13	14.9	14.4	NA	15.4	77300
118	ALBERTSON'S	7802	7	122	11888a	9	400.1	26	3.4	2.9	20.4	25.4	3563
119	TOYS 'R' US	7737	-27	79	8439a	13	497.5	11	5.9	6.0	15.1	17.3	7503
120	RJR NABISCO HOLDINGS	7659	-2	114	15366	2	764.0	NM	5.0	NM	5.9	6.6	31408
121	GANNETT	7656	-4	111	3825	5	465.4	17	12.2	10.9	18.9	27.5	3713
122	NOVELL	7629	-3	113	2003	-3	193.8	201	9.7	3.1	NA	13.0	1963
123	PPG INDUSTRIES	7607	-7	109	6331	10	514.6	74	8.1	5.1	16.5	19.1	5094
124	UNITED HEALTHCARE	7534	6	148	3769y	21	288.1	36	7.6	6.8	NA	10.3	3489
125	AMERICAN BRANDS	7495	12	137	13147y	4	885.1	64	6.7	4.3	NA	19.8	9794
126	MERRILL LYNCH	7441	-10	107	18233y	10	1016.8	-27	5.6	8.4	26.4	17.6	163749
127	TEXAS UTILITIES	7396	-15	101	5664	4	644.7	33	11.4	8.9	7.0	8.2	20893
128	SCECORP	7333	-9	110	8345	6	721.5	6	8.6	8.7	8.4	11.1	22390
129	CORNING	7331	20	153	4799y	19	281.3	NM	5.9	NM	9.6	12.3	6023
130	TEXAS INSTRUMENTS	7299	-1	120	10315	21	691.0	45	6.7	5.6	19.8	22.7	6989
131	PUBLIC SERVICE ENTERPRISE GROUP	7127	-4	119	5916	4	721.2	14	12.2	11.1	9.5	12.8	16717
132	KEYCORP	6971	-8	118	5258y	4	853.5	20	16.2	14.0	NA	18.4	66798
133	ALUMINUM CO. OF AMERICA	6970	5	139	9904	9	443.1	NM	4.5	0.1	10.6	12.4	12667
134	MARION MERRELL DOW	6935	53	218	3060	9	438.0	21	14.3	12.8	19.0	20.2	4046
135	UNOCAL	6929	4	140	7965y	-5	124.0	-64	1.6	4.1	4.5	3.3	9337
136	MEDTRONIC	6922	51	217	1619	19	272.9	22	16.9	16.5	26.0	24.0	1717
137	U.S. HEALTHCARE	6881	0	132	2975y	12	391.1	31	13.2	11.3	46.4	46.4	1464
138	DEAN WITTER, DISCOVER	6861	12	150	5006y	10	740.9	23	14.8	13.3	15.2	18.4	28691
139	CHUBB	6826	6	144	5710y	4	528.5	63	9.3	5.9	9.4	12.3	20723
140	GEORGIA-PACIFIC	6769	5	146	12782	4	326.0	NM	2.6	NM	9.2	13.2	10609
141	CARNIVAL	6710	-2	133	1806	16	381.8	20	21.1	20.4	15.2	20.3	3670
142	LIN BROADCASTING	6677	16	159	876	27	564.2	NM	64.4	NM	37.3	262.2	3109
143	DEERE	6617	-9	124	9409y	17	655.0	112	7.0	3.8	18.4	25.6	13471
144	DOMINION RESOURCES	6549	-6	128	4491	1	520.0	-7	11.6	12.6	7.8	10.3	13657
145	McDONNELL DOUGLAS	6535	39	214	13176	-9	598.0	67	4.5	2.5	12.1	15.7	12216
146	CHASE MANHATTAN	6504	8	155	11187y	-2	1205.0	159	10.8	4.1	NA	15.3	117065
147	AMERICAN GENERAL	6503	23	160	4926a	3	314.0	-43	6.4	11.4	6.0	14.8	46295
148	CONSOLIDATED EDISON CO. OF N.Y.	6489	-7	129	6373	2	734.3	12	11.5	10.5	9.3	13.1	14049
149	SUNTRUST BANKS	6379	15	167	3239y	6	522.7	10	16.1	15.5	14.7	14.8	41627
150	MICRON TECHNOLOGY	6330	122	350	1843	81	492.2	191	26.7	16.6	36.2	40.7	1807

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P.

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
HIGH/ LOW $	PRICE BOOK	P/E RATIO		PAYOUT	TOTAL	OUT MIL	TURN OVER			ACTUAL $	ACTUAL			
62/49	728	14	5.02	70	-11	77	170	40.2	12	2.42	3.70	3.93	2.0	Publishing/TV
37/26	296	18	3.36	61	27	53	262	53.2	12	0.94	1.85	2.03	8.4	Fuel
63/48	498	26	0.97	25	21	76	141	41.8	06	2.08	2.37	2.76	1.1	Office equipment
58/37	288	13	3.51	46	15	67	188	72.2	12	2.59	3.49	4.11	4.9	Conglomerates
.61/133	240	11	2.86	31	19	65	53	86.1	12	10.10	14.78	17.60	5.4	Banks
49/36	200	14	2.94	42	-12	60	206	63.5	12	2.58	2.86	4.43	8.8	Paper
44/34	248	13	2.81	38	-5	36	217	35.7	09	2.55	2.87	3.18	1.3	Conglomerates
60/47	308	16	3.38	53	4	63	160	48.1	12	3.18	3.33	3.73	4.0	Paper
70/55	217	15	3.01	45	0	80	123	67.5	12	3.30b	4.40	5.29	3.4	Aerospace & defense
90/63	218	12	2.26	28	-10	62	105	58.6	12	3.46	6.23	6.89	2.2	Transportation
34/26	339	16	2.53	41	22	44	248	42.8	05	1.81	2.04d	2.28	4.4	Food
35/27	295	18	2.42	44	7	58	244	47.5	12	1.32	1.80	2.16	15.3	Utilities
42/33	177	14	4.99	68	7	42	205	37.3	12	2.80	2.88	3.09	2.6	Utilities
28/21	228	11	3.26	34	13	61	309	44.7	12	2.13	2.45	2.77	1.4	Banks
56/44	478	24	2.69	64	12	62	147	48.5	12	2.95	2.25	3.53	1.1	Food
79/58	337	21	2.45	52	21	81	105	57.6	12	2.83	3.52	4.11	1.5	Electrical
48/39	141	9	4.12	37	13	56	176	41.8	12	4.73	4.98	5.68	2.1	Banks
31/26	495	19	1.43	28	8	46	254	34.8	01	1.34	1.59d	1.81	2.2	Food
39/28	269	15	0.00	0	-24	64	278	75.3	01	1.63	1.86d	2.19	2.7	Retailing
7/5	79	13	0.00	0	-18	28	1362	62.8	12	-0.05	0.42	0.58	5.2	Consumer products
58/46	453	17	2.47	42	4	71	139	69.0	12	2.72	3.23	3.52	2.0	Publishing/TV
26/14	513	37	0.00	0	-18	45	364	240.3	10	-0.11	0.56	1.03	6.8	Office equipment
42/34	283	15	3.16	48	-1	52	207	43.1	12	1.39	2.43	3.40	5.9	Housing
55/37	269	26	0.07	2	4	90	175	124.1	12	1.24	1.64	2.30	2.2	Health care
39/29	168	9	5.37	46	19	58	201	47.2	12	3.30	4.38	3.02	9.6	Consumer products
45/32	130	9	2.24	19	3	63	181	131.0	12	6.14	4.75	4.91	10.4	Nonbank financial
39/30	112	14	9.40	128	-7	53	226	55.7	12	1.66	2.40	2.83	3.5	Utilities
19/12	119	11	6.11	66	-3	27	448	55.8	12	1.43	1.52	1.64	4.3	Utilities
35/29	324	24	2.24	55	9	55	228	45.3	12	-0.09	1.32	2.25	4.0	Manufacturing
90/63	240	11	1.27	14	-2	77	93	224.9	12	5.07	7.27	8.69	6.6	Electrical
31/24	134	10	7.42	78	3	36	245	36.8	12	2.48	2.78	2.80	3.2	Utilities
34/24	153	8	4.97	42	4	51	240	46.5	12	2.89	3.45	3.70	3.2	Banks
45/32	196	16	1.15	18	6	41	179	120.7	12	0.02	2.48	6.13	21.5	Metals
27/16	324	16	4.02	64	57	NA	279	45.2	12	1.30	1.57	1.31	7.6	Health care
31/24	261	79	2.82	222	6	69	244	58.3	12	1.27	0.36	1.35	14.1	Fuel
61/35	609	24	0.68	16	51	67	115	72.4	04	2.03	2.49d	2.95	2.4	Health care
49/34	817	18	1.95	35	3	80	160	242.6	12	1.84	2.42	2.87	2.8	Health care
43/32	170	9	1.60	15	13	75	171	68.0	12	3.66	4.35	4.85	1.9	Nonbank financial
83/69	158	13	2.34	31	9	72	87	60.0	12	3.91	5.95	6.81	2.6	Nonbank financial
79/57	275	20	2.14	44	7	66	90	129.4	12	-0.21	3.66	8.76	22.7	Paper
25/19	356	18	1.26	22	-1	19	283	31.9	11	1.13	1.35	1.62	1.9	Leisure
16/103	3104	12	0.00	0	26	42	52	61.3	12	-1.18	10.84	2.82	15.6	Telecommunications
91/61	259	11	2.88	31	-7	85	87	146.8	10	2.39	7.01	8.30	8.8	Manufacturing
43/35	141	14	6.79	92	2	38	172	39.1	12	3.12	2.81	3.08	3.6	Utilities
57/35	171	11	1.43	16	42	57	117	83.2	12	3.06	5.05	5.38	3.3	Aerospace & defense
40/30	92	6	4.46	27	15	68	181	111.3	12	1.89	5.87	5.83	6.3	Banks
32/25	188	13	3.92	51	22	72	206	40.7	12	1.15	2.45	3.32	2.1	Nonbank financial
31/23	122	9	7.38	68	0	33	235	41.8	12	2.66	2.98	2.77	2.9	Utilities
55/44	181	12	2.67	33	22	50	118	24.6	12	3.77	4.37	4.86	1.2	Banks
62/28	524	16	0.32	5	119	62	102	484.8	08	1.04	3.83	6.30	6.8	Electrical

ES TO TABLES APPEAR ON PAGE 102



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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
			CHANGE FROM 1994 %	YEAR AGO RANK	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 %	12 MONTHS 1993 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	12 MONTHS 1994 $ MIL
151	FPL GROUP	6321	–2	145	5423	2	558.3	18	10.3	8.9	8.8	12.3	12618
152	BANK OF NEW YORK	6282	23	183	4083	15	749.0	34	18.3	15.7	16.4	17.6	48883
153	AMERICAN ELECTRIC POWER	6275	3	152	5505	4	554.7	34	10.1	7.8	8.5	11.8	15713
154	THE LIMITED	6259	–10	126	7321y	1	448.3	15	6.1	5.4	15.2	17.7	4556
155	OCCIDENTAL PETROLEUM	6171	11	168	9236	14	–36.0	NM	NM	0.9	NM	–3.5	17295
156	BROWNING-FERRIS INDUSTRIES	6113	23	195	4679	31	314.6	54	6.7	5.7	10.4	13.2	6880
157	UPJOHN	6103	21	188	3345	–1	489.1	23	14.6	11.7	15.9	20.6	5162
158	AETNA LIFE & CASUALTY	6055	–10	136	17525y	2	467.5	NM	2.7	NM	6.5	8.0	95407
159	MARSH & McLENNAN	6052	–1	151	3435	9	382.0	15	11.1	10.5	21.6	25.6	3831
160	FIRST INTERSTATE BANCORP	6038	17	177	4119	8	733.5	31	17.8	14.7	NA	22.7	55813
161	SCOTT PAPER	5991	78	300	3581	0	264.1	NM	7.4	NM	8.3	15.5	5626
162	PNC BANK	5948	–8	147	4723	22	610.1	–18	12.9	19.2	NA	13.8	64145
163	WACHOVIA	5940	8	170	2967y	9	539.1	10	18.2	18.1	10.6	16.8	39188
164	PECO ENERGY	5928	0	156	4041	1	435.3	–26	10.8	14.8	7.2	9.1	15093
165	FIRST DATA	5900	22	203	1652	11	208.1	20	12.6	11.6	14.9	19.3	4490
166	GENENTECH	5891	5	162	795y	22	124.4	111	15.6	9.1	9.2	9.7	1745
167	UST	5834	7	171	1223x	10	387.5	5	31.7	33.2	76.4	86.6	741
168	KMART	5823	–25	115	34025y	–7	260.0	NM	0.8	NM	NM	3.1	20285
169	WALGREEN	5815	16	190	9523	12	291.7	17	3.1	2.9	18.5	18.2	3103
170	LOEWS	5727	–2	157	13515y	–1	267.8	–55	2.0	4.3	NM	4.9	50286
171	MELLON BANK	5611	59	284	3957y	9	433.0	–6	10.9	12.7	NA	9.7	38644
172	AIR PRODUCTS & CHEMICALS	5585	–6	172	3579	7	245.1	18	6.8	6.2	9.7	11.1	5036
173	GOODYEAR TIRE & RUBBER	5580	–18	134	12288	6	567.0	16	4.6	4.2	16.7	20.6	9212
174	WESTINGHOUSE ELECTRIC	5530	9	184	8848	0	77.0	NM	0.9	NM	5.2	1.7	10624
175	CIGNA	5469	16	211	18392y	0	554.0	137	3.0	1.3	7.6	9.4	86000
176	RHONE-POULENC RORER	5465	11	191	4175	4	351.0	–17	8.4	10.5	15.6	22.5	4252
177	UNICOM	5439	–5	161	6278	19	419.9	309	6.7	2.0	NM	6.5	23086
178	PACIFICORP	5436	7	185	3507	3	468.0	11	13.3	12.4	NA	12.6	11846
179	ALLTEL	5381	5	182	2962	26	271.8	4	9.2	11.2	10.3	16.7	4714
180	PITNEY BOWES	5370	–23	130	3271	9	348.4	14	10.7	10.2	NA	20.0	7400
181	INTERNATIONAL FLAVORS & FRAGRANCES	5364	29	238	1270a	7	218.4	16	17.2	16.0	22.5	21.7	1400
182	LOWE'S	5364	10	199	6111	35	223.6	70	3.7	2.9	12.5	16.2	3106
183	WM. WRIGLEY JR.	5244	–3	173	1597	12	230.5	32	14.4	12.2	33.6	33.5	979
184	FIRST BANK SYSTEM	5225	45	278	2022	5	419.8	41	20.8	15.5	14.1	18.8	26215
185	R.R. DONNELLEY	5213	9	205	4889	11	268.6	50	5.5	4.1	10.8	13.8	4452
186	READER'S DIGEST ASSOCIATION	5213	5	192	2933	4	208.3	–42	7.1	12.6	NA	25.8	2187
187	SYSCO	5201	4	189	11557	9	235.0	11	2.0	2.0	14.1	18.3	2973
188	NIKE	5195	34	260	4100	6	323.3	–3	7.9	8.6	17.7	17.4	2528
189	HERCULES	5117	9	212	2813	1	274.2	32	9.7	7.5	NA	21.7	294
190	MORGAN STANLEY GROUP	5117	3	193	9376	2	395.0	–50	4.2	8.6	30.6	12.6	11598
191	RUBBERMAID	5111	5	201	2169	11	228.1	8	10.5	10.8	18.0	17.7	170
192	ILLINOIS TOOL WORKS	5107	5	200	3461	10	277.8	34	8.0	6.5	17.2	19.3	246
193	ENTERGY	5088	–34	158	6018a	34	456.4	–11	7.6	11.5	6.5	5.8	2281
194	DAYTON HUDSON	5051	–1	181	20594a	9	433.0	25	2.1	1.8	9.1	14.9	1220
195	NBD BANCORP	5008	8	216	3399y	10	547.3	14	16.1	15.5	13.6	16.8	4711
196	BURLINGTON NORTHERN	5002	–10	164	4995	6	426.0	44	8.5	6.3	13.7	22.8	759
197	RALSTON PURINA GROUP	4969	14	224	5759a	–3	231.1	–19	4.0	4.8	17.9	62.5	379
198	MATTEL	4942	11	220	3205	19	255.8	88	8.0	5.0	20.8	22.2	245
199	DIGITAL EQUIPMENT	4932	23	252	13777	1	–2105.8	NM	NM	NM	NM	–67.9	962
200	BANKERS TRUST NEW YORK	4928	–26	141	6526	12	615.0	–43	9.4	18.3	NA	13.6	9701

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL	TURNOVER	FY	1993 ACTUAL $	1994 ACTUAL $	ANALYSTS' ESTIMATES 1995 EST $	ANALYSTS' ESTIMATES 7-ARG ATION	
37/27	150	12	4.91	60	11	44	176	63.5	12	2.30	2.91	3.02	1.7	Utilities
34/25	150	9	3.82	33	28	70	188	61.7	12	2.87	3.92	4.14	2.4	Banks
36/27	149	13	7.08	89	10	38	185	48.4	12	1.92	2.71	2.84	3.5	Utilities
22/17	247	14	2.29	32	–8	53	358	69.8	01	1.08	1.25	1.49	4.7	Retailing
22/15	195	NM	5.06	DEF	14	50	312	64.2	12	0.12	–0.36	0.97	28.9	Fuel
33/24	256	20	2.19	45	11	75	197	72.1	09	1.15	1.52	1.82	3.3	Services
37/26	263	13	4.20	54	27	65	173	79.8	12	2.24	2.75	2.54	5.5	Health care
61/42	103	13	5.13	67	–6	78	113	66.5	12	–5.54	4.14	5.75	6.4	Nonbank financial
89/71	405	16	3.54	56	2	68	74	38.3	12	4.52	5.19	5.66	2.8	Nonbank financial
85/63	196	9	3.69	34	26	77	74	112.6	12	6.68	8.71	11.19	4.4	Banks
81/37	351	22	1.01	23	76	74	76	141.5	12	–3.91	3.54	5.21	11.1	Paper
32/20	135	10	5.49	54	–3	52	233	52.2	12	3.14	2.57	2.66	12.4	Banks
35/30	185	11	3.80	42	13	55	171	26.9	12	2.83	3.13	3.42	1.2	Banks
29/24	138	15	6.06	92	5	37	222	46.6	12	2.45	1.76	2.61	3.1	Utilities
54/41	548	29	0.22	6	23	98	110	57.9	12	1.56	1.87	2.23	1.3	Office equipment
54/42	459	48	0.00	0	3	18	117	43.3	12	0.50	1.04	1.29	8.5	Health care
32/24	1304	16	4.37	70	16	56	196	52.1	12	1.71	1.87	2.14	1.9	Consumer products
19/13	100	23	7.53	175	–28	62	457	79.3	01	–0.73	0.55	1.27	16.5	Retailing
48/34	363	21	1.65	34	18	54	123	53.4	08	1.98	2.28	2.60	0.8	Health care
98/85	104	22	1.03	22	3	52	59	35.9	12	9.27	4.45	9.55	19.6	Nonbank financial
40/30	152	16	4.72	74	8	66	147	62.7	12	3.09	2.42	4.46	1.1	Banks
50/39	253	24	1.99	48	5	82	113	50.6	09	1.76	2.06	3.11	1.6	Chemicals
46/32	203	10	2.17	21	–17	74	151	107.7	12	3.33	3.75	4.17	4.6	Automotive
16/11	342	NM	1.29	286	9	34	357	75.3	12	–0.64	0.07	0.86	8.1	Electrical
76/57	93	10	4.01	40	20	88	72	77.3	12	3.25	7.66	7.50	11.3	Nonbank financial
43/31	370	17	2.94	49	16	12	134	27.0	12	2.96	2.45	3.16	3.8	Health care
28/21	100	15	6.31	96	1	59	214	48.3	12	0.17	1.66	2.60	7.7	Utilities
20/16	159	13	5.65	72	12	37	284	35.0	12	1.40	1.51	1.51	4.0	Utilities
31/24	333	20	3.35	67	8	33	188	31.1	12	1.39	1.43	1.83	1.1	Telecommunications
46/29	308	16	3.38	54	–17	79	151	59.5	12	2.22	2.21	2.65	3.4	Office equipment
50/36	532	24	2.58	61	33	59	111	33.2	12	1.78	2.03d	2.26	2.2	Chemicals
41/30	389	23	0.54	13	2	66	160	90.3	01	0.90	1.44	1.79	5.6	Retailing
54/38	762	23	2.22	51	–1	24	116	28.4	12	1.50	1.98	1.97	1.5	Food
39/30	241	11	3.73	41	22	49	134	46.7	12	2.39	3.57	4.07	2.7	Banks
34/27	268	20	1.87	37	12	75	152	37.8	12	1.16	1.75	2.03	3.0	Services
49/40	648	20	3.48	68	10	34	113	28.4	06	2.16	2.34	2.50	1.6	Publishing/TV
29/21	406	24	1.55	37	6	60	183	50.1	06	1.08	1.18	1.40	1.4	Food
77/51	279	14	1.39	20	41	49	72	91.4	05	3.96	5.01d	5.68	2.8	Consumer products
45/32	404	19	1.91	37	16	84	117	84.8	12	1.62	2.29	2.46	5.7	Chemicals
71/55	136	16	1.78	29	2	77	76	67.0	01	9.59	4.18	6.04	10.8	Nonbank financial
33/24	398	22	1.58	35	6	45	162	50.5	12	1.32	1.42	1.62	3.1	Manufacturing
46/37	355	18	1.34	24	6	72	114	29.6	12	1.83	2.45	2.80	3.2	Manufacturing
34/21	79	14	8.04	110	–27	66	227	74.1	12	2.62	1.64	2.35	7.7	Utilities
87/66	181	12	2.38	30	1	85	72	113.4	01	4.99	5.66d	6.64	3.6	Retailing
33/27	154	9	4.24	38	13	45	161	33.6	12	2.98	3.45	3.64	3.3	Banks
67/46	281	13	2.14	27	–9	74	89	116.0	12	3.06	4.48	5.17	4.1	Transportation
48/34	1461	23	2.51	57	25	49	104	42.3	09	2.56	2.12	2.86	3.5	Food
24/19	437	20	0.86	17	8	81	221	63.8	12	0.61	1.12	1.63	6.1	Leisure
39/18	157	NM	0.00	0	15	56	147	191.6	06	–1.93	–15.43	–0.13	430.8	Office equipment
82/55	114	9	6.34	56	–19	73	78	101.1	12	12.40	7.17	8.11	11.6	Banks

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	COMPANY	MARKET VALUE			SALES		PROFITS		RETURN				ASSETS
									12 MONTHS 1994	12 MONTHS 1993	INVESTED CAPITAL	COMMON EQUITY	
201	SILICON GRAPHICS	4908	51	312	1761	40	174.3	52	9.9	9.1	NA	18.6	1597
202	LOCKHEED	4905	19	244	13130	0	445.0	5	3.4	3.2	11.0	16.5	9025
203	NUCOR	4902	3	186	2976	32	226.6	84	7.6	5.5	16.5	21.7	2002
204	DURACELL INTERNATIONAL	4883	1	202	1996	12	220.8	67	11.1	7.4	14.8	17.7	2454
205	BURLINGTON RESOURCES	4871	-13	166	1055	1	154.2	-40	14.6	24.5	NM	6.1	4809
206	TEXTRON	4862	-5	180	9683y	7	433.0	14	4.5	4.2	7.0	14.5	20737
207	GENUINE PARTS	4794	2	210	4858	11	288.5	11	5.9	5.9	18.7	19.2	1955
208	APPLE COMPUTER	4732	11	233	9552	13	458.2	NM	4.8	NM	16.0	17.9	5533
209	THE GAP	4724	-28	142	3573a	13	310.8	45	8.7	6.8	23.6	23.6	1948
210	HOUSTON INDUSTRIES	4719	-11	175	4002	-7	440.7	-2	11.0	10.4	8.6	11.8	12249
211	CENTRAL & SOUTH WEST	4693	-9	178	3626	-2	412.0	47	11.4	7.6	9.9	12.9	10913
212	USX-MARATHON GROUP	4667	-6	196	12757x	7	321.0	NM	2.5	NM	7.3	10.0	10951
213	AMR	4638	-3	204	16137	2	228.0	NM	1.4	NM	5.1	4.6	20288
214	HONEYWELL	4629	5	221	6057	2	278.9	-13	4.6	5.4	14.1	15.1	4886
215	COOPER INDUSTRIES	4589	4	225	4588y	-4	292.8	-2	6.4	6.3	8.5	9.0	6400
216	MARTIN MARIETTA	4587	4	227	9874	5	635.6	41	6.4	4.8	15.3	25.4	8844
217	CNA FINANCIAL	4565	7	232	11000	0	36.5	-86	0.3	2.4	NM	0.7	44270
218	AMERADA HESS	4556	6	231	6699y	14	73.7	NM	1.1	NM	NA	2.4	8434
219	EASTMAN CHEMICAL	4550	32	293	4329	11	336.0	26	7.8	6.8	14.4	27.8	4375
220	FIRST CHICAGO	4549	8	236	4673	18	689.7	-14	14.8	20.4	20.7	16.3	65900
221	CORESTATES FINANCIAL	4364	16	334	2497y	3	248.8	-31	10.0	15.0	8.9	11.3	29300
222	CONRAIL	4359	-12	197	3733	8	324.0	38	8.7	6.8	9.1	10.9	8296
223	QUAKER OATS	4328	2	234	6211	7	193.1	-37	3.1	5.3	20.6	40.4	5061
224	FREEPORT-McMORAN COPPER & GOLD	4325	-14	176	1212	31	130.2	115	10.7	6.6	NA	NA	3040
225	MORTON INTERNATIONAL	4324	-16	179	3116	23	264.5	71	8.5	6.1	17.0	18.2	2642
226	BARNETT BANKS	4293	5	246	3082	-1	488.0	16	15.8	13.6	NA	16.5	41278
227	TRW	4265	-9	213	9088	14	333.2	51	3.7	2.8	15.3	18.6	5636
228	FIRST FINANCIAL MANAGEMENT	4256	19	283	2208y	25	160.2	22	7.3	7.5	NA	11.7	3136
229	UNION CARBIDE	4254	18	279	4865	5	389.0	136	8.0	3.6	18.1	25.1	5028
230	HALLIBURTON	4250	19	280	5741y	-10	177.8	NM	3.1	NM	8.3	9.6	5268
231	HERSHEY FOODS	4250	-5	219	3606	3	184.2	-38	5.1	8.5	12.9	12.8	2891
232	FLEET FINANCIAL GROUP	4244	-5	222	4171y	1	612.9	26	14.7	11.8	13.6	19.5	46988
233	W. R. GRACE	4234	1	239	5093	16	83.3	-38	1.6	3.0	5.1	5.8	6231
234	HOUSEHOLD INTERNATIONAL	4226	[illegible]	310	4603	3	367.6	23	8.0	6.7	NA	16.0	34338
235	LINCOLN NATIONAL	4187	9	263	6936y	-17	349.9	-16	5.0	5.0	NA	11.1	49330
236	WINN-DIXIE STORES	4177	10	266	11365	3	223.9	-7	2.0	2.2	19.4	21.0	2260
237	DETROIT EDISON	4147	0	242	3519	-1	419.9	-20	11.9	14.7	8.0	11.8	10993
238	GREAT LAKES CHEMICAL	4096	-27	165	2111y	15	278.7	2	13.2	14.9	19.6	21.8	2183
239	NATIONAL CITY	4095	2	250	2787	8	429.4	6	15.4	15.6	16.5	16.9	32114
240	ST. PAUL	4094	16	285	4701	5	442.8	4	9.4	9.6	NA	15.8	17496
241	FIRST FIDELITY BANCORPORATION	4090	17	289	2493	4	451.1	14	18.1	16.6	14.0	16.2	36216
242	DSC COMMUNICATIONS	4087	37	359	1003	37	162.6	99	16.2	11.2	18.7	19.1	1269
243	ARCO CHEMICAL	4084	-12	215	3423	7	269.0	26	7.9	6.7	12.3	16.4	3737
244	WHIRLPOOL	4053	-18	194	8104	8	158.0	-32	2.0	3.1	8.7	9.2	6700
245	CAROLINA POWER & LIGHT	4044	-8	228	2877	-1	313.2	-10	10.9	12.0	8.3	11.7	8211
246	CUC INTERNATIONAL	4025	20	303	991a	18	110.0	38	11.1	9.5	27.0	27.8	712
247	FLUOR	4022	10	273	8487	5	198.7	13	2.3	2.2	16.7	16.3	2825
248	MASCO	4014	-25	174	4468	15	193.7	-12	4.3	5.7	7.1	8.7	4364
249	SANTA FE PACIFIC	3978	-6	237	2681	11	199.4	12	7.4	7.4	NA	16.5	5573
250	CBS	3962	-17	207	3712	6	281.6	-14	7.6	9.3	34.4	109.1	2261

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
1 MONTH HIGH LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	MONTH INSTITUTIONAL HOLDING	SHRS. OUT. MIL	TURNOVER	FY	1993 ACTUAL $	1994 ACTUAL $	ANALYSTS' EST. $	ESTIMATE VARIATION	
35/19	523	38	0.00	0	45	76	142	112.3	06	0.60	0.91	1.38	2.2	Office equipment
80/59	182	11	2.94	33	22	99	63	58.6	12	6.70	7.00	7.28	1.8	Aerospace & defense
72/50	470	22	0.32	7	–3	72	87	68.3	12	1.42	2.60	3.68	8.4	Metals
47/37	391	25	2.50	62	2	47	117	54.3	06	1.04	1.68	1.93	1.0	Manufacturing
47/33	192	32	1.43	46	–9	71	127	64.8	12	1.95	1.20	0.84	60.7	Fuel
58/47	163	11	2.56	29	–3	68	89	44.3	12	4.21	4.80	5.36	0.9	Conglomerates
40/34	318	17	2.96	49	5	66	123	27.9	12	2.08	2.33	2.58	1.2	Services
48/25	185	15	1.22	18	10	52	120	439.7	09	0.73	2.61	4.37	8.2	Office equipment
49/29	359	15	1.48	22	–28	44	146	129.4	01	1.78	2.16d	2.52	2.8	Retailing
41/30	137	12	7.84	90	2	55	123	68.6	12	3.20	3.32	3.36	3.3	Utilities
28/20	154	12	6.98	83	–4	44	191	45.8	12	1.39	2.08	2.11	2.8	Utilities
19/16	148	15	4.18	62	–2	62	287	48.1	12	–0.04	1.10	0.81	22.2	Fuel
64/48	132	27	0.00	0	–3	86	76	172.7	12	–2.05	2.26	6.14	13.2	Transportation
38/28	250	17	2.75	47	12	73	127	67.7	12	2.40	2.15	2.47	0.8	Electrical
42/32	172	19	3.36	63	6	66	117	60.6	12	2.75	2.10	2.64	7.2	Electrical
51/41	202	8	2.01	16	6	71	96	55.6	12	4.25	6.00	4.67	3.4	Aerospace & defense
74/60	102	NM	0.00	0	7	NA	62	19.3	12	4.26	0.51	3.88	33.2	Nonbank financial
53/44	146	62	1.22	76	7	64	93	60.5	12	–3.22	0.79	1.12	35.7	Fuel
56/40	377	14	2.92	40	35	69	83	83.1	12	NA	4.05	4.86	6.0	Chemicals
56/43	116	7	4.35	31	8	72	90	92.0	12	8.78	7.04	6.78	4.0	Banks
30/23	198	17	4.51	78	20	59	145	48.7	12	2.80	1.75	3.36	3.9	Banks
63/48	156	16	2.72	42	–9	86	79	108.8	12	2.51b	3.56	4.60	5.2	Transportation
43/30	925	19	3.52	68	5	50	134	144.9	06	1.97	1.68	1.86	2.7	Food
27/20	1158	55	2.86	158	–14	19	206	27.4	12	0.16	0.38	0.86	16.3	Metals
37/26	297	19	1.50	29	–15	69	148	82.6	06	0.86	1.51	1.92	2.6	Chemicals
48/37	151	9	3.70	34	10	55	97	66.2	12	4.10	4.79	5.18	2.7	Banks
76/61	239	13	3.04	40	–7	55	65	45.5	12	3.39	5.05	5.93	4.0	Conglomerates
71/52	311	27	0.14	4	18	88	62	72.3	12	2.10	2.56	3.04	1.6	Nonbank financial
36/22	282	13	2.62	33	23	66	149	128.3	12	0.97b	2.27	3.20	10.3	Chemicals
38/28	230	24	2.68	64	22	77	114	100.5	12	–1.43	1.56	1.59	11.3	Fuel
52/41	295	23	2.65	61	–2	30	87	36.4	12	3.31	2.12	3.35	0.9	Food
41/30	138	8	5.14	43	0	58	136	105.4	12	3.01	3.75	4.46	4.7	Banks
46/35	295	51	3.11	159	4	83	94	44.5	12	1.46	0.88	3.46	2.0	Chemicals
44/29	199	12	2.88	36	30	70	97	68.3	12	2.91	3.52	4.17	1.9	Nonbank financial
44/35	139	12	4.26	51	3	68	104	45.9	12	4.06	3.37	4.13	4.4	Nonbank financial
58/43	392	19	2.79	54	13	15	75	15.7	06	3.11	2.90	3.22	0.9	Food
30/24	125	11	7.20	77	9	36	145	56.0	12	3.34	2.67	2.71	4.8	Utilities
79/49	320	15	0.67	10	–23	76	68	94.4	12	3.82	4.00	4.51	2.7	Chemicals
29/24	167	10	4.61	47	14	66	148	46.3	12	2.41	2.70	2.95	2.0	Banks
50/38	149	10	3.08	29	21	80	84	61.6	12	4.92	5.12	5.06	4.2	Nonbank financial
51/41	154	10	3.96	39	20	36	81	49.6	12	4.55b	5.11	5.60	1.8	Banks
39/18	480	26	0.00	0	32	91	114	450.0	12	0.77	1.39	1.76	4.0	Telecommunications
51/41	249	15	5.88	89	–7	9	96	5.4	12	2.23	2.80	3.43	5.5	Chemicals
70/45	235	26	2.50	65	–18	78	75	89.3	12	3.19	2.10	4.86	4.3	Consumer products
29/23	156	14	6.40	87	7	33	147	36.6	12	2.10	2.03	2.36	2.5	Utilities
38/25	1017	35	0.00	0	18	85	114	55.9	01	0.77	1.00d	1.27	1.6	Office equipment
56/41	330	21	1.23	26	11	64	83	106.2	10	2.03	2.32	2.66	1.9	Services
36/21	180	21	2.87	59	–26	57	160	73.2	12	1.45	1.22	2.06	4.9	Consumer products
25/12	329	20	0.47	10	39	65	188	132.5	12	1.81	1.05	1.14	5.3	Transportation
72/50	1601	17	0.62	11	6	96	61	124.3	12	4.08	3.74	3.58	9.2	Publishing/TV

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	COMPANY	MARKET VALUE $M	CHANGE FROM 1994	YEAR 2 RANK	SALES 12 MONTHS 1994 $MIL	CHANGE FROM 1993	PROFITS 12 MONTHS 1994 $M	CHANGE FROM 1993	MARGINS 12 MONTHS 1994	MARGINS 12 MONTHS 1993	RETURN ON INVESTED CAPITAL	RETURN ON COMMON EQUITY	ASSETS 12 MONTHS 1994 $M
251	H&R BLOCK	3960	-19	198	1291a	17	172.2	-2	13.3	15.9	28.0	28.0	901
252	BOATMEN'S BANCSHARES	3931	32	340	2087	9	355.3	12	17.0	16.6	16.8	16.1	28927
253	MBNA	3917	27	329	1673a	30	247.6	26	14.8	15.2	12.4	30.6	9672
254	EATON	3908	-5	243	6052	38	333.0	85	5.5	4.1	14.4	20.7	4682
255	AVON PRODUCTS	3885	-7	240	4267	11	264.8	12	6.2	6.2	NA	149.3	1978
256	TURNER BROADCASTING SYSTEM	3882	-10	230	2809	46	46.2	-36	1.6	3.8	6.2	76.8	3830
257	GENERAL INSTRUMENT	3880	36	352	2036	46	248.5	175	12.2	6.5	21.6	44.8	2109
258	APPLIED MATERIALS	3879	1	264	1825	52	242.1	98	13.3	10.2	20.5	23.5	1820
259	UNION ELECTRIC	3868	2	267	2056	0	320.8	8	15.6	14.4	9.3	13.3	6625
260	AUTOZONE	3862	-5	248	1575	22	122.0	33	7.7	7.1	21.6	21.8	937
261	PHELPS DODGE	3852	-3	256	3289	27	271.0	44	8.2	7.2	10.5	12.6	4134
262	TYCO INTERNATIONAL	3852	4	413	3822	8	147.4	37	3.9	3.0	NA	13.1	3186
263	CHAMPION INTERNATIONAL	3837	31	343	5318	5	63.3	NM	1.2	NM	3.6	1.2	8964
264	CINERGY	3822	7	NR	2924	3	225.8	122	7.7	3.6	NA	8.3	8150
265	SALOMON	3811	-31	169	6339y	-28	-364.0	NM	NM	9.8	9.8	-11.6	173000
266	CROWN CORK & SEAL	3801	13	302	4452	7	131.0	28	2.9	4.3	8.4	9.6	4780
267	DRESSER INDUSTRIES	3800	-5	254	5250	-3	207.0	-32	3.9	5.6	11.2	13.3	4324
268	ROHM & HAAS	3799	-2	261	3534y	8	264.0	110	7.5	3.9	NA	17.6	3861
269	MARRIOTT INTERNATIONAL	3798	3	270	8415	4	200.0	24	2.4	2.0	17.3	24.8	3232
270	HUMANA	3791	21	324	3576y	14	176.0	98	4.9	2.8	NA	17.3	1957
271	TRANSAMERICA	3791	-2	259	5355y	11	427.9	-4	8.0	9.3	NA	15.7	40394
272	NEWELL	3769	19	316	2075	26	195.6	18	9.4	10.1	15.1	18.1	2488
273	COMCAST	3762	-16	223	1375	3	-75.3	NM	NM	NM	NM	NM	4964
274	SAFEWAY	3760	50	404	15627	3	250.2	103	1.6	0.8	NA	45.5	5041
275	AFLAC	3747	22	331	6111	22	292.8	20	4.8	4.9	15.4	16.8	20300
276	ALCO STANDARD	3733	26	382	8256y	19	84.2	473	1.0	0.2	5.4	6.2	3777
277	TRIBUNE	3727	-4	258	2155	11	242.0	28	11.2	9.7	NA	NA	2786
278	PROMUS	3659	-27	187	1582	26	135.5	48	8.6	7.3	13.5	20.9	1913
279	FEDERAL EXPRESS	3643	-12	241	8932	10	259.1	65	2.9	1.9	10.0	12.5	6052
280	BALTIMORE GAS & ELECTRIC	3614	6	298	2783	2	323.6	4	11.6	11.3	8.1	10.4	8144
281	UNION CAMP	3605	7	301	3396	9	117.2	134	3.5	1.6	6.4	6.5	4705
282	TYSON FOODS	3576	13	317	5284	11	5.7	-97	0.1	3.9	0.4	0.4	3694
283	OFFICE DEPOT	3563	2	291	4266	50	105.0	48	2.5	2.5	10.7	15.5	1904
284	AON	3549	5	299	4157	8	360.0	11	8.7	8.4	13.6	14.5	17714
285	BECTON, DICKINSON	3528	24	342	2599	6	235.0	9	9.0	8.8	12.6	15.8	3024
286	McGRAW-HILL	3502	1	290	2761	26	203.1	NM	7.4	0.5	14.0	NA	3009
287	AMERICAN STORES	3500	3	297	18355	-2	345.2	32	1.9	1.4	10.8	16.8	7032
288	GENERAL PUBLIC UTILITIES	3485	6	306	3650	1	192.1	41	5.3	9.0	6.2	6.2	9210
289	NORDSTROM	3472	9	315	3894y	8	203.0	45	5.2	3.9	14.0	15.9	2491
290	DOW JONES	3467	-13	255	2091	8	181.2	23	8.7	7.6	10.9	12.2	2389
291	SAFECO	3462	-4	277	3727y	5	314.4	-26	8.4	12.0	10.6	10.7	15902
292	PROVIDIAN	3450	-1	288	3011	5	300.9	-7	10.0	11.2	12.0	13.6	23613
293	LORAL	3448	7	313	5446	53	276.5	37	5.1	5.7	10.7	18.4	4918
294	CONSOLIDATED NATURAL GAS	3442	-16	247	3036	5	183.2	3	6.0	5.9	7.4	8.5	5527
295	3COM	3439	83	486	1014	46	-45.2	NM	NM	10.2	-10.3	-13.8	631
296	MELVILLE	3431	-16	245	11286	8	307.5	-7	2.7	3.2	14.2	13.1	4735
297	HILTON HOTELS	3379	-3	292	1506y	8	121.7	19	8.1	7.4	7.5	11.1	2926
298	NEWMONT GOLD	3376	-29	209	597	-1	83.4	-26	14.0	18.8	NM	9.2	1657
299	DOVER	3374	-4	287	3085	24	202.4	28	6.6	6.4	17.8	20.4	2070
300	INGERSOLL-RAND	3363	-17	249	4507	12	211.2	29	4.7	4.1	13.1	14.5	3597

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
		P-E			TOTAL RETURN	TUTIONS HOLDING	OUT MIL	TURN			ACTUAL	EST	VARI ATION	
49/33	643	20	3.33	68	–16	76	106	87.9	04	1.54	1.84d	2.16	3.7	Nonbank financial
35/26	178	9	4.39	40	13	41	127	62.9	12	3.07	3.40	3.59	2.0	Banks
28/19	450	15	2.73	41	31	78	149	76.1	12	1.38	1.77	2.26	4.9	Banks
62/44	243	11	2.39	27	–11	60	78	62.8	12	2.57	4.40	5.12	4.5	Automotive
64/54	2190	15	3.56	53	1	87	69	88.4	12	3.46	3.75	4.26	1.9	Consumer products
23/15	6456	NM	0.37	44	–17	19	206	11.1	12	0.27	0.16	0.33	54.5	Publishing/TV
35/21	700	16	0.00	0	34	72	122	174.2	12	0.74	2.01	1.67	4.2	Electrical
55/36	376	18	0.00	0	–3	90	84	407.5	10	1.21	2.51	3.60	3.9	Manufacturing
38/31	167	13	6.44	81	9	27	102	38.5	12	2.77	3.01	2.94	3.7	Utilities
31/22	690	34	0.00	0	–6	41	146	55.5	08	0.59	0.78	0.96	1.0	Retailing
65/51	179	14	3.30	47	0	81	71	142.1	12	2.66	3.81	7.59	15.4	Metals
55/43	343	19	0.77	15	1	53	74	70.4	06	1.58	2.70	3.25	2.5	Manufacturing
43/28	133	NM	0.49	53	31	86	93	82.7	12	–1.75	0.38	4.44	14.0	Paper
25/21	166	19	6.98	132	8	54	155	43.4	12	–0.39	1.30	2.11	2.8	Utilities
53/35	104	NM	1.78	DEF	–26	74	106	85.7	12	7.34	–3.98	3.01	32.6	Nonbank financial
43/34	279	29	0.00	0	13	56	89	59.7	12	2.08	1.47	2.80	7.9	Containers
25/19	244	10	3.30	34	–6	70	184	70.9	10	0.92	1.98	1.18	8.5	Manufacturing
69/53	261	15	2.64	39	1	71	68	48.1	12	1.74	3.79	4.47	4.5	Chemicals
32/25	512	21	0.90	19	7	49	123	46.0	12	1.27	1.51	1.73	5.8	Leisure
26/16	373	21	0.00	0	21	71	161	108.5	12	0.56	1.10	1.31	5.3	Health care
55/46	148	10	3.66	37	12	62	69	36.7	12	5.44	5.46	5.75	2.4	Nonbank financial
25/19	350	19	1.68	32	21	68	158	53.1	12	1.05	1.24	1.44	1.4	Manufacturing
21/14	NEG	NM	0.59	DEF	–22	69	239	111.3	12	–0.46	–0.32	–0.29	44.8	Publishing/TV
36/22	684	18	0.00	0	45	32	105	47.3	12	1.02	2.02	2.42	3.7	Food
38/29	215	13	1.22	16	29	57	100	40.7	12	2.32	2.84	3.26	1.5	Nonbank financial
69/50	320	62	1.52	95	24	60	55	59.4	09	–0.04	1.10	3.63	1.4	Conglomerates
65/49	358	18	2.00	36	–2	58	67	62.5	12	2.36b	3.07	3.46	3.8	Publishing/TV
51/26	566	27	0.00	0	–27	74	102	179.5	12	0.89	1.32	1.73	4.0	Leisure
81/54	175	13	0.00	0	–13	83	56	101.3	05	3.65	4.98d	5.81	4.6	Transportation
25/21	133	13	6.20	79	12	40	148	42.6	12	1.85	1.93	2.06	2.9	Utilities
52/42	199	31	3.03	93	10	76	70	57.4	12	0.72	1.68	4.94	15.4	Paper
25/19	271	NM	0.32	DEF	15	19	145	44.9	09	1.22	–0.01	1.61	2.5	Food
27/19	525	34	0.00	0	–5	70	152	88.2	12	0.45	0.69	0.90	2.2	Retailing
36/29	158	11	3.68	41	8	48	102	22.1	12	2.81	3.14	3.37	2.1	Nonbank financial
53/35	241	17	1.56	27	36	93	67	66.0	09	2.71	3.05	3.48	2.3	Health care
77/63	426	17	3.40	59	3	69	50	58.4	12	0.23	4.10	†	†	Publishing/TV
28/23	171	10	1.96	20	5	77	143	65.7	01	1.85	2.42	2.24	3.1	Food
32/24	133	21	5.95	127	12	63	115	71.3	12	2.65	1.42	2.87	3.5	Utilities
50/37	271	17	1.18	20	9	52	82	179.5	01	1.71	2.47	2.85	3.5	Retailing
42/28	233	19	2.60	50	–9	39	98	47.3	12	1.48	1.83	2.03	4.4	Publishing/TV
60/47	118	11	3.56	39	–1	69	63	99.0	12	6.77	4.99	5.79	2.9	Nonbank financial
37/29	157	12	2.54	30	5	73	98	46.0	12	3.12	3.02	4.07	2.0	Nonbank financial
43/34	229	12	1.47	18	7	73	84	64.7	03	2.72	3.35d	3.69	2.2	Electrical
44/33	160	19	5.24	98	–11	65	93	43.3	12	2.03	1.97	2.23	5.4	Utilities
53/20	1049	24	0.00	0	72	85	66	1008.7	05	–0.46	2.14d	2.69	4.8	Office equipment
42/30	155	12	4.68	55	–12	86	106	48.9	12	3.00	2.75	3.15	4.1	Retailing
74/50	307	28	1.71	48	–2	40	48	93.5	12	2.14	2.52	3.22	2.5	Leisure
48/32	460	50	1.37	69	–21	NA	96	13.0	12	1.08	0.70	0.96	17.7	Metals
67/50	341	17	1.75	29	–1	64	57	39.8	12	2.77	3.54	4.09	5.4	Manufacturing
40/30	230	16	2.32	37	–15	65	106	50.2	12	1.56	2.00	2.51	5.6	Manufacturing

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS				ASSETS
			FROM		12 MONTHS 1994 $M	FROM	12 MONTHS 1994 $M	CHANGE FROM 1993	12 MONTHS 1994	12 MONTHS 1993	ON 12 MONTHS CAPITA	ON COMMON EQUITY	12 MONTHS 1994 $M
301	PANHANDLE EASTERN	3355	4	385	4585	7	225.2	31	4.9	4.0	10.0	12.8	7508
302	EMC	3354	–8	276	1378	76	250.7	97	18.2	16.2	28.6	40.6	1317
303	GEICO	3338	–11	268	2716	3	208.9	–27	7.7	10.9	12.5	14.2	4998
304	ENRON OIL & GAS	3335	–3	294	572	1	148.0	7	25.9	24.3	NM	14.5	1856
305	FIFTH THIRD BANCORP	3333	10	347	1178	13	244.5	19	20.8	19.9	19.4	17.5	14957
306	VF	3305	0	308	4972	15	274.5	11	5.5	5.7	14.2	15.6	3336
307	COMERICA	3303	6	326	2419	15	387.2	14	16.0	16.2	9.1	16.2	33430
308	HEALTHTRUST	3289	43	422	3318	37	184.3	31	5.6	5.8	9.8	17.1	4007
309	WELLPOINT HEALTH NETWORKS	3271	–4	296	2792y	14	213.2	14	7.6	7.6	15.9	15.8	2386
310	MEAD	3257	25	387	4558	8	89.6	–6	2.0	2.3	5.4	4.1	4863
311	PENNSYLVANIA POWER & LIGHT	3215	–12	271	2725	0	244.3	–30	9.0	12.8	6.5	8.6	9432
312	BANK OF BOSTON	3210	30	402	4317	32	441.9	61	10.2	8.4	NA	15.4	44630
313	EQUITABLE	3186	4	304	6447y	–1	323.9	38	5.0	3.6	1.1	11.3	103607
314	OHIO EDISON	3185	2	323	2368	0	308.9	917	13.0	1.3	5.9	12.2	8994
315	LOUISIANA-PACIFIC	3164	–34	206	3040	21	346.9	36	11.4	10.1	19.1	19.1	2716
316	FRANKLIN RESOURCES	3156	–14	272	844y	19	255.6	28	30.3	28.2	21.0	27.5	1778
317	CLOROX	3143	10	348	1907	10	190.4	10	10.0	10.0	18.3	21.4	1700
318	PRAXAIR	3119	24	398	2711	11	203.0	42	7.5	5.9	16.5	24.2	3520
319	LSI LOGIC	3114	227	823	895	24	108.7	102	12.2	7.5	13.1	20.0	1270
320	SUN	3113	–14	274	9908y	5	97.0	–66	1.0	3.0	5.7	5.0	6500
321	NEWMONT MINING	3110	–16	269	597	–5	76.1	–20	12.7	15.0	NM	9.2	1657
322	DILLARD DEPARTMENT STORES	3108	–23	251	5729y	8	251.8	4	4.4	4.5	9.4	11.4	4578
323	W. W. GRAINGER	3102	–1	320	3023	15	127.9	–14	4.2	5.7	12.3	12.3	1509
324	REYNOLDS METALS	3100	1	330	6013y	14	121.7	NM	2.0	NM	NM	5.2	7197
325	SHAWMUT NATIONAL	3095	24	466	2251	6	237.4	–16	10.5	13.3	NA	11.4	32399
326	UNUM	3078	–25	235	3624	7	154.7	–50	4.3	9.2	15.7	8.1	13127
327	SUN MICROSYSTEMS	3035	20	383	5348	19	255.4	36	4.8	4.2	13.8	14.4	2981
328	NORTHERN STATES POWER	3028	10	363	2487	3	243.5	15	9.8	8.8	8.8	12.2	5954
329	WISCONSIN ENERGY	3023	13	380	1742	3	182.2	–6	10.5	11.5	NA	10.6	4408
330	COASTAL	3011	–9	305	10215	1	232.6	97	2.3	1.2	8.4	9.0	10535
331	TORCHMARK	2995	–4	321	1923	–12	268.9	–10	14.0	13.7	15.6	23.0	8404
332	FLORIDA PROGRESS	2986	13	381	2772	13	222.2	6	8.0	8.5	8.0	10.7	5719
333	GENERAL DYNAMICS	2977	2	344	3058	–4	223.0	–17	7.3	8.5	15.2	17.4	2673
334	PRICE/COSTCO	2968	–32	229	16829y	8	196.4	61	1.2	0.8	8.9	11.3	4811
335	REEBOK INTERNATIONAL	2965	7	357	3280	13	254.5	14	7.8	7.7	24.6	26.4	1649
336	WILLAMETTE INDUSTRIES	2958	–6	318	3008	15	177.6	61	5.9	4.2	9.9	13.4	3033
337	DELTA AIR LINES	2935	18	400	12198	0	–273.7	NM	NM	NM	NA	–22.3	11940
338	KROGER	2908	12	391	22959	3	268.9	57	1.2	0.8	29.2	NM	4507
339	KNIGHT-RIDDER	2903	–8	322	2649	8	170.9	15	6.5	6.0	12.1	14.0	2447
340	ADVANCED MICRO DEVICES	2898	46	473	2135	30	305.3	33	14.3	13.9	16.9	17.0	2446
341	HARCOURT GENERAL	2892	7	368	3171y	6	103.4	5	3.3	3.3	NA	9.9	3242
342	LDDS COMMUNICATIONS	2886	–11	314	1668a	73	155.9	505	9.3	2.7	7.8	7.4	2783
343	SHERWIN-WILLIAMS	2876	–8	325	3100	5	186.6	13	6.0	5.6	17.5	17.7	1924
344	WASHINGTON POST	2873	1	349	1614	8	169.7	10	10.5	10.3	14.9	15.3	1697
345	PIONEER HI-BRED INTERNATIONAL	2853	–13	309	1481	10	208.5	58	14.1	9.9	25.0	27.0	1510
346	NORTHEAST UTILITIES	2843	–2	319	3643	0	329.9	34	9.1	6.8	7.1	12.4	10580
347	CABLETRON SYSTEMS	2837	–20	282	753	36	150.0	36	19.9	19.9	27.7	27.7	620
348	CINCINNATI FINANCIAL	2836	3	365	1500a	6	202.2	6	13.5	13.5	10.1	10.1	4734
349	SYBASE	2832	4	446	826	71	89.0	78	10.8	10.3	NA	22.3	67
350	ALLEGHENY POWER SYSTEM	2803	–1	355	2452	5	239.8	3	9.8	10.0	7.7	10.9	636

ALPHABETICAL INDEX OF COMPANIES BEGINS ON

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
HIGH/	PRICE						SHRS OUT	TURN OVER		ACTUAL	1994 ACTUAL	1995 EST	VARI ATION	
24/18	190	15	3.73	56	7	53	149	56.3	12	1.29	1.51	1.92	5.2	Utilities
24/13	544	15	0.00	0	–12	68	196	212.3	12	0.65	1.18	1.41	5.0	Office equipment
58/48	227	16	2.21	36	–5	83	68	9.0	12	4.01	2.98	3.42	9.7	Nonbank financial
25/17	327	22	0.57	13	–2	17	160	16.6	12	0.87	0.93	0.68	27.9	Fuel
55/46	238	14	2.41	33	12	40	65	35.4	12	3.28	3.80	4.28	2.8	Banks
54/44	191	12	2.64	32	4	83	64	46.7	12	3.80	4.20	4.63	3.0	Consumer products
31/24	138	9	4.53	39	9	57	117	48.6	12	2.85	3.28	3.50	1.7	Banks
37/27	306	18	0.00	0	28	58	91	81.8	08	1.62	1.98	2.38	1.7	Health care
37/24	243	15	0.00	0	–4	15	100	23.2	12	1.88	2.14	2.42	2.1	Health care
56/39	149	36	1.83	66	27	77	60	91.6	12	2.08	1.52	4.63	11.4	Paper
25/19	129	15	8.05	118	–7	22	155	38.8	12	2.07	1.41	2.02	5.0	Utilities
31/22	122	8	3.59	29	33	64	107	101.8	12	2.28	3.79	4.17	4.1	Banks
26/17	150	15	0.89	13	–3	36	142	64.6	12	1.09b	1.53	1.71	6.4	Nonbank financial
22/17	138	11	7.19	76	9	35	153	37.7	12	0.01	1.97	2.00	3.0	Utilities
44/26	174	9	1.77	16	–34	49	112	90.2	12	2.32	3.15	3.53	8.8	Paper
50/33	339	13	1.03	13	–12	35	81	55.5	09	2.12	3.00	3.21	3.1	Nonbank financial
61/47	354	18	3.18	57	17	53	52	42.6	06	3.07	3.35	3.76	0.5	Consumer products
25/16	372	16	1.24	19	22	71	138	79.7	12	1.06	1.45	1.63	3.1	Chemicals
56/17	572	28	0.00	0	185	89	57	251.6	12	1.09	1.98	2.98	4.4	Electrical
35/25	162	32	6.18	198	–9	56	107	56.4	12	2.65	0.91	2.09	11.5	Fuel
47/33	475	52	1.33	69	–16	77	86	116.2	12	0.92	0.70	0.95	31.6	Metals
36/25	141	12	0.44	5	–23	78	113	101.2	01	2.14	2.23	2.56	4.3	Retailing
69/52	298	24	1.31	32	0	62	51	51.6	12	2.88	2.50	3.88	2.1	Services
59/40	183	35	2.00	70	1	81	62	77.1	12	–5.38	1.42	4.17	24.2	Metals
26/16	159	14	3.43	47	24	54	121	139.6	12	2.44	1.87	2.85	5.3	Banks
58/35	160	20	2.26	46	–19	70	72	99.8	12	3.96	2.09	4.07	5.9	Nonbank financial
38/18	171	16	0.00	0	18	80	95	402.2	06	1.49	2.02	2.99	6.0	Office equipment
47/39	160	13	5.83	76	16	30	67	35.4	12	3.02	3.46	3.45	3.2	Utilities
28/23	177	17	5.08	84	17	33	109	30.1	12	1.81	1.67	2.10	2.9	Utilities
34/25	126	14	1.39	20	–7	65	105	61.8	12	1.02	2.05	2.37	4.6	Fuel
45/32	238	11	2.67	30	0	56	72	46.9	12	4.01	3.72	4.39	3.4	Nonbank financial
33/25	151	14	6.44	89	13	36	95	44.0	12	2.22	2.28	2.46	2.0	Utilities
47/38	232	13	2.96	40	4	57	63	68.6	12	4.27	3.51	3.60	2.5	Aerospace & defense
22/12	171	27	0.00	0	–32	54	218	133.6	08	1.01	0.51	1.11	3.6	Retailing
40/28	308	12	0.82	10	11	81	81	75.2	12	2.53	3.02	3.44	2.0	Consumer products
58/40	223	17	2.01	33	–5	62	55	110.9	12	2.02	3.23	6.40	13.4	Paper
58/40	175	NM	0.34	DEF	17	73	51	140.2	06	–10.54	–10.32	2.27	58.2	Transportation
27/21	NEG	11	0.00	0	9	59	111	70.2	12	1.60	2.37	2.66	7.1	Food
61/47	237	17	2.70	47	–2	63	53	63.8	12	2.68	3.15	3.48	3.4	Publishing/TV
32/21	167	10	0.00	0	41	79	95	298.2	12	2.30	3.02	3.70	7.3	Electrical
40/30	276	30	1.72	52	8	54	78	41.2	10	2.08	1.22	2.11	3.3	Conglomerates
29/14	166	22	0.00	0	–14	37	123	211.1	12	0.85	1.05d	1.38	2.9	Telecommunications
35/30	272	16	1.90	30	–3	60	86	49.4	12	1.85	2.15	2.39	1.3	Housing
3/222	258	17	1.74	30	6	53	11	21.9	12	13.10	14.65	14.81	4.7	Publishing/TV
39/30	370	14	2.01	28	–6	56	85	90.2	08	1.53	2.40	2.35	1.7	Food
25/20	123	10	7.74	77	5	34	125	45.6	12	1.60	2.30	2.26	3.5	Utilities
53/33	524	18	0.00	0	–21	67	72	143.4	02	1.68	2.24d	2.75	2.9	Office equipment
57/46	142	14	2.28	33	6	33	50	18.1	12	3.94	3.90d	4.13	3.9	Nonbank financial
57/35	840	34	0.00	0	–10	63	70	514.2	12	0.72	1.21	1.84	2.2	Office equipment
25/20	139	13	6.98	88	4	39	119	46.0	12	1.88	1.86	1.98	2.0	Utilities

:S TO TABLES APPEAR ON PAGE 102

Heated Mirrors with tilt-down feature. When reverse gear is engaged, both mirrors automatically lower to show what's directly behind the rear wheels.

Smart Locks prevent the doors from being locked with the engine off and the key in the ignition.

Easy Entry/Exit Driver's Seat automatically moves back two inches when ignition key is removed.

Memory Profile System remembers two drivers' settings for 12 functions, including steering effort, ride firmness, radio stations, seat and mirror positions.

Four-way Lumbar Adjustment for driver and front passenger. Not only inflates/deflates but can also be moved up or down.

*Two-way Heated Seats give driver and front passenger the choice of cushion and seatback, or seatback-only heating, plus five temperature settings.**

*Flip-up, Hands-free Cellular Phone.**

*Six-disc Compact Disc Changer conveniently located inside the console.**

More New Ideas T
Can Shake A L

*Mirror-integrated Electronic Compass.**

Virtual Image Instrumentation.

MicronAir® Filtration System removes pollen and other impurities as small as three microns.

Adjustable Steering and Suspension System lets the driver choose from eight different combinations of ride firmness and steering effort.

Delayed Accessory Power allows operation of accessories for ten minutes after the ignition is turned off.

*145-watt JBL Audio System can simulate five different acoustic environments.**

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he New Lincoln Continental

, the perfect balance of luxury and technology. Powered the 32-valve V-8 InTech™ System which goes 100,000 les before its first scheduled tune-up. Trimmed in fine ther and burl walnut. And loaded with enough surprising innovations to seriously tax the supply of midnight oil at every other luxury-car manufacturer. For more information, call 1 800 446-8888.

LINCOLN

What A Luxury Car Should Be

	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
351	SOUTHERN PACIFIC RAIL	2785	1	364	3143	8	247.8	NM	7.9	NM	15.6	27.3	4152
352	FEDERATED DEPARTMENT STORES	2778	–8	335	8316y	15	187.6	–5	2.3	2.7	6.3	9.6	8169
353	HASBRO	2775	–10	328	2670	–3	179.3	–10	6.7	7.3	12.8	13.3	2378
354	PROGRESSIVE	2768	14	409	2415y	24	274.3	3	11.4	13.7	17.7	26.5	4675
355	JEFFERSON-PILOT	2762	18	418	1269	6	229.9	10	18.1	17.6	13.1	13.1	6140
356	PREMARK INTERNATIONAL	2754	7	392	3451	11	225.5	31	6.5	5.6	23.2	25.3	2237
357	TEMPLE-INLAND	2738	–4	353	2938	7	131.4	95	4.5	2.5	5.1	7.5	12251
358	FOOD LION	2721	–4	354	7933	4	152.9	NM	1.9	0.1	11.0	15.5	2492
359	SALLIE MAE	2711	–29	265	3057	17	412.1	–27	13.5	21.7	5.4	31.9	52961
360	COMPUTER SCIENCES	2702	37	464	3085	23	104.3	24	3.4	3.4	10.0	12.1	1845
361	BAKER HUGHES	2697	1	372	2487	–6	138.5	94	5.6	2.7	7.7	7.7	3032
362	MOLEX	2687	19	433	1050	17	107.3	30	10.2	9.2	11.7	11.8	1207
363	COCA-COLA ENTERPRISES	2673	17	423	6011	10	69.0	NM	1.1	NM	4.7	5.0	8781
364	SERVICE CORP. INTERNATIONAL	2668	18	429	1117	24	131.0	27	11.7	11.5	7.8	13.6	5160
365	WESTVACO	2653	15	421	2772	17	137.1	167	4.9	2.2	6.6	7.2	4021
366	STATE STREET BOSTON	2628	–7	356	1886y	23	207.4	15	11.0	11.7	20.7	17.1	21730
367	REPUBLIC NEW YORK	2624	–1	374	2347y	13	340.0	13	14.5	14.5	8.6	15.5	41068
368	U. S. CELLULAR	2623	34	443	332	55	16.4	NM	4.9	NM	NA	1.5	1535
369	INTERPUBLIC GROUP	2609	6	407	1984y	11	115.2	–8	5.8	7.0	15.3	17.8	3033
370	TANDY	2607	–2	384	4944y	21	224.3	15	4.5	4.8	11.7	12.5	3244
371	KERR-McGEE	2604	12	420	3353	2	90.1	17	2.7	2.3	5.7	5.8	3698
372	WILLIAMS	2601	2	393	1751	–2	164.9	–11	9.4	10.3	NA	9.5	5211
373	PET	2592	29	465	1576	1	112.6	–3	7.1	7.4	15.6	31.1	1176
374	GREEN TREE FINANCIAL	2588	68	566	497	36	181.3	56	36.4	31.8	21.0	26.5	1772
375	MBIA	2586	2	394	440	2	260.2	6	59.2	57.4	14.0	15.2	5264
376	ANADARKO PETROLEUM	2580	–1	386	483	0	41.1	3	8.5	8.3	3.7	4.6	2142
377	TENET HEALTHCARE	2579	–1	390	2724	–13	212.3	–15	7.8	7.9	15.4	14.8	3303
378	WHEELABRATOR TECHNOLOGIES	2561	–28	281	1325	16	184.9	13	14.0	14.3	10.0	12.9	3282
379	CITIZENS UTILITIES	2545	–15	337	817a	34	136.8	12	16.7	20.1	9.5	12.3	3353
380	INFORMIX	2541	67	573	469	33	66.2	18	14.1	15.9	28.1	28.1	444
381	CONTEL CELLULAR	2536	54	540	563	51	1.9	NM	0.3	NM	NM	NM	2176
382	USX-U. S. STEEL GROUP	2526	–13	327	6066	8	201.0	NM	3.3	NM	NA	19.3	6480
383	CHARLES SCHWAB	2526	59	554	1065y	10	135.3	9	12.7	12.9	22.6	30.6	7565
384	SOUTHWEST AIRLINES	2525	–8	208	2592	13	179.3	16	6.9	6.7	11.7	14.8	2823
385	SAN DIEGO GAS & ELECTRIC	2520	–6	370	1982	0	143.5	–34	7.2	11.0	6.7	9.3	4642
386	GREAT WESTERN FINANCIAL	2518	11	430	2998	0	251.2	305	8.4	2.1	NA	9.3	42200
387	VASTAR RESOURCES	2516	NA	NR	1658	9	149.0	27	9.0	7.7	18.6	NM	1664
388	ENGELHARD	2512	–5	378	2386y	11	118.0	608	4.9	0.8	NM	19.7	1402
389	MALLINCKRODT GROUP	2505	–12	351	2033	10	110.7	NM	5.4	NM	8.8	10.6	2515
390	SONAT	2505	–5	376	1774	2	141.4	–47	8.0	15.2	9.3	10.0	3531
391	TECO ENERGY	2498	6	415	1351	5	156.7	2	11.6	12.0	9.9	14.1	3312
392	CYPRUS AMAX MINERALS	2498	–10	361	2788	58	166.0	66	6.0	5.7	7.1	6.5	5407
393	MYLAN LABORATORIES	2480	33	489	355	45	105.0	36	29.6	31.6	24.5	24.5	508
394	TELEPHONE & DATA SYSTEMS	2476	8	434	731	31	60.5	79	8.3	6.1	4.2	4.1	2635
395	FREEPORT-McMORAN	2470	–9	367	1982	23	72.6	NM	3.7	NM	9.3	NA	4374
396	U. S. BANCORP	2466	–6	379	1969y	–2	151.5	–41	7.7	12.9	NA	8.6	21816
397	DANA	2432	11	366	6763	21	228.2	78	3.4	2.3	14.4	24.3	5111
398	THERMO ELECTRON	2416	22	475	1487a	24	97.1	34	6.5	6.0	6.6	10.1	3020
399	CHIRON	2414	–5	399	413a	46	28.0	NM	6.8	NM	NA	5.0	1010
400	HUNTINGTON BANCSHARES	2409	3	417	1220y	–1	242.6	2	19.9	19.2	NA	17.3	17741

ATION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH	PRICE	P-E			TOTAL RETURN	INSTI	SHRS M	TURN		ACTUAL	1994 ACTUAL	1995 EST	VARI ATION	
24/17	307	11	0.00	0	–15	58	156	51.3	12	–0.54	1.63	1.28	7.0	Transportation
25/18	117	16	0.00	0	–8	5	126	146.9	01	1.56	1.41	1.64	15.2	Retailing
37/28	206	16	0.89	14	–10	69	88	66.9	12	2.22	2.01	2.42	3.7	Leisure
41/28	276	11	0.57	6	16	64	71	40.4	12	3.59	3.59	3.10	2.9	Nonbank financial
57/47	157	12	3.02	36	25	41	48	30.2	12	4.36	4.73	4.48	2.7	Nonbank financial
48/34	309	13	1.85	24	9	77	64	94.8	12	2.58	3.39	3.81	3.2	Conglomerates
57/43	156	21	2.21	46	–3	77	56	68.9	12	1.21	2.35	4.97	12.7	Containers
7/5	275	18	1.68	30	–3	6	484	19.6	12	0.01	0.32	NA	NM	Food
46/31	216	7	4.01	29	–15	90	74	136.1	12	6.41	5.03	4.57	5.9	Nonbank financial
53/35	312	24	0.00	0	26	77	55	77.7	03	1.77	2.09d	2.50	2.0	Office equipment
22/17	165	23	2.41	54	3	68	141	101.0	09	0.34	0.85	0.72	5.6	Fuel
36/24	294	28	0.12	3	19	24	80	40.1	06	0.95	1.20	1.47	1.4	Electrical
22/16	203	39	0.24	10	16	36	130	23.0	12	–0.11	0.52	0.61	8.2	Consumer products
29/23	277	19	1.49	28	7	70	95	52.2	12	1.24	1.51	1.73	2.3	Services
40/30	140	25	2.78	71	18	64	67	47.4	10	0.85	1.55	3.34	12.6	Paper
43/28	216	12	2.01	24	–13	67	82	121.2	12	2.36	2.70	2.99	3.0	Banks
52/42	133	9	2.65	24	1	47	53	44.8	12	5.05b	5.61	5.99	2.7	Banks
34/22	240	NM	0.00	0	19	14	79	8.9	12	–0.45	0.21	0.39	53.8	Telecommunications
36/28	403	22	1.64	37	6	81	76	41.2	12	1.67	1.53	2.12	1.9	Services
52/31	175	15	1.61	25	9	73	58	130.3	12	2.48	2.91	3.60	3.6	Consumer products
51/40	169	29	3.02	87	16	72	52	50.8	12	1.57	1.74	2.46	11.0	Fuel
33/22	158	19	3.76	71	20	83	90	139.5	12	2.20	1.52	2.32	4.3	Utilities
26/16	716	22	1.40	32	32	60	101	113.3	06	1.06	1.14	1.15	4.3	Food
39/22	379	15	0.65	10	67	84	68	108.9	12	1.81	2.61	3.13	2.2	Nonbank financial
63/47	151	10	2.00	20	4	85	42	81.6	12	5.80	6.18	6.52	2.5	Nonbank financial
59/36	289	63	0.68	43	–1	75	59	144.1	12	0.70	0.70	0.79	38.0	Fuel
20/13	180	13	0.00	0	–1	78	166	123.2	05	1.29	1.21d	1.38	8.0	Health care
21/13	179	14	0.73	10	–27	30	186	39.5	12	0.86	0.97	1.11	3.6	Utilities
16/12	229	17	0.00	0	–16	5	196	9.8	12	0.67	0.75d	0.80	2.5	Utilities
39/14	1077	39	0.00	0	61	87	67	458.5	12	0.83	0.98	1.34	3.7	Office equipment
25/13	NEG	NM	0.00	0	54	6	100	17.0	12	–0.75	0.02	0.09	233.3	Telecommunications
43/30	277	14	3.01	43	–17	67	76	124.6	12	–2.96b	2.33	5.16	10.9	Metals
46/24	571	19	0.81	16	62	47	57	110.5	12	2.09	2.32	2.56	7.0	Nonbank financial
36/16	208	14	0.23	3	–48	56	143	149.0	12	1.05	1.22	1.17	8.5	Transportation
23/18	172	18	7.03	130	1	17	117	25.8	12	1.81	1.17	1.91	2.6	Utilities
21/15	103	11	4.91	54	15	85	134	60.3	12	0.28	1.69	1.87	10.7	Nonbank financial
30/22	NEG	21	0.29	6	NA	16	97	NA	12	NA	1.21	1.38	29.0	Fuel
32/21	420	21	1.82	39	–2	54	95	56.9	12	0.17	1.23	1.47	5.4	Chemicals
38/28	241	24	1.71	41	–10	81	77	89.7	06	–1.48	1.38	2.37	1.7	Health care
35/26	177	18	3.72	67	–1	70	86	74.0	12	3.05	1.62	1.83	12.6	Utilities
22/18	230	16	4.70	77	10	38	116	27.6	12	1.30	1.32	1.52	3.3	Utilities
33/23	109	17	2.96	50	–8	61	93	100.6	12	1.85	1.59	3.22	22.7	Metals
31/16	578	22	0.64	14	33	42	79	151.2	03	0.93	1.43d	1.64	9.1	Health care
50/36	171	43	0.79	34	1	67	54	45.7	12	0.67	1.07	1.27	5.5	Telecommunications
21/16	NEG	49	0.00	0	0	62	137	54.2	12	–0.74	0.37	0.54	79.6	Metals
29/22	152	18	3.98	71	–2	52	98	83.5	12	2.47	1.40	2.77	4.0	Banks
31/20	259	11	3.41	36	–8	70	99	64.9	12	1.39	2.31	2.66	3.4	Automotive
49/36	250	23	0.00	0	15	71	51	74.5	12	1.75	2.07d	2.46	5.3	Electrical
82/51	434	62	0.00	0	–22	52	40	502.5	12	0.55	0.98d	1.74	12.6	Health care
22/17	172	10	4.32	43	6	20	130	43.2	12	1.85	1.87	1.87	5.9	Banks

NOTES TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
				AGO	MONTHS 1994	1993	MONTHS	CHANGE 1993	12 MONTHS 1994	12	ON INVESTED CAPITAL	COMMON	12 MONTHS 1994
401	WESTERN ATLAS	2387	NA	NR	2166	8	77.7	NM	3.6	NM	6.0	6.2	2404
402	TIMES MIRROR	2379	–46	226	3357	4	126.2	144	3.8	1.6	NA	6.6	4213
403	EQUIFAX	2343	33	516	1422	17	120.3	89	8.5	5.2	25.5	40.2	1021
404	COOPER TIRE & RUBBER	2342	4	432	1403	18	128.5	26	9.2	8.6	19.8	20.5	1040
405	NALCO CHEMICAL	2334	–6	401	1346	–3	97.1	–36	7.2	11.0	13.9	15.7	1269
406	E. W. SCRIPPS	2324	11	448	1220	2	122.7	–5	10.1	10.8	11.9	11.4	1730
407	PALL	2321	11	449	718a	6	101.2	29	14.1	11.5	16.2	16.8	962
408	DIAL	2320	13	458	3547	18	140.3	27	4.0	3.7	14.0	25.6	3785
409	DELUXE	2307	–18	358	1748	11	140.9	–1	8.1	9.0	16.0	17.3	1256
410	UNITRIN	2306	8	445	1366	0	148.4	56	10.9	7.0	8.4	8.4	4570
411	PARKER HANNIFIN	2297	33	525	2827	13	106.8	66	3.8	2.6	9.8	10.6	2045
412	GAYLORD ENTERTAINMENT	2291	0	425	688	11	63.1	0	9.2	10.1	8.9	18.7	1017
413	POTOMAC ELECTRIC POWER	2291	–18	360	1823	6	227.2	–6	12.5	14.0	6.2	10.8	6966
414	TELLABS	2269	98	716	494	54	72.4	138	14.7	9.5	27.5	27.2	390
415	BLACK & DECKER	2265	33	532	5248	8	127.4	34	2.4	2.0	8.1	12.1	5434
416	FOREST LABORATORIES	2264	4	440	399y	16	94.7	25	23.7	22.1	15.1	15.1	680
417	CIRCUS CIRCUS ENTERPRISES	2251	–30	311	1170	21	136.3	17	11.6	12.1	NA	20.9	1507
418	GOLDEN WEST FINANCIAL	2241	–15	377	1914	–1	230.4	–16	12.0	14.2	4.5	11.5	31684
419	BROWN-FORMAN	2234	14	416	1444	2	145.2	–11	10.1	11.6	19.7	29.1	1343
420	DPL	2233	9	455	1205	3	159.6	8	13.3	12.7	9.6	13.7	3233
421	MFS COMMUNICATIONS	2229	12	469	287	103	–151.2	NM	NM	NM	NM	–19.7	1498
422	ANDREW	2227	170	914	579	28	49.2	67	8.5	6.5	15.8	17.4	423
423	MGIC INVESTMENT	2226	23	503	486a	21	149.9	24	30.8	30.1	19.0	18.6	1476
424	PARAMETRIC TECHNOLOGY	2190	20	481	263	43	71.7	46	27.3	26.8	NA	29.6	311
425	ADOBE SYSTEMS	2186	27	634	598	15	6.3	–91	1.1	12.8	1.9	1.9	626
426	PENNZOIL	2185	–11	408	2563y	0	–283.7	NM	NM	6.2	NM	–23.1	4716
427	NORTHROP GRUMMAN	2185	11	477	6711	33	35.0	–64	0.5	1.9	2.8	2.5	6047
428	AMERICAN GREETINGS	2185	6	452	1842	7	137.5	17	7.5	6.9	12.2	12.8	1738
429	JEFFERSON SMURFIT	2178	NA	NR	3233	10	12.3	NM	0.4	NM	7.6	NM	2765
430	LUBRIZOL	2172	–14	397	1599	5	175.6	107	11.0	5.6	19.7	21.1	1394
431	MIRAGE RESORTS	2161	–6	424	1254	32	124.7	160	9.9	5.0	11.3	12.5	1641
432	MANPOWER	2155	56	613	4296	35	83.9	NM	2.0	NM	NA	33.5	1200
433	FMC	2153	22	515	4011	7	173.4	323	4.3	1.1	20.5	44.2	3400
434	H. F. AHMANSON	2152	4	454	3284	6	237.4	NM	7.2	NM	NA	6.3	53726
435	NEW ENGLAND ELECTRIC SYSTEM	2144	–8	419	2243	0	208.1	4	9.3	9.0	8.6	12.6	4985
436	NEW YORK TIMES	2141	–28	339	2358	17	213.3	NM	9.1	0.3	11.3	NA	3225
437	SHAW INDUSTRIES	2141	–20	369	2789	13	130.4	11	4.7	4.8	11.2	18.2	1686
438	ROADWAY SERVICES	2138	–23	362	4572	10	19.6	–84	0.4	2.9	1.9	1.9	1949
439	CONSOLIDATED PAPERS	2138	7	467	1028	8	86.7	35	8.4	6.8	8.6	9.0	1500
440	SOUTHERN NEW ENGLAND TELECOMMS.	2137	6	451	1717y	4	177.6	NM	10.3	NM	11.8	19.1	3505
441	HOMESTAKE MINING	2135	–27	345	705y	–2	78.0	49	11.1	7.3	10.8	13.4	1217
442	SIGNET BANKING	2133	3	453	1303	18	149.8	–14	11.5	15.8	13.7	13.5	12931
443	FIRST OF AMERICA BANK	2129	–2	436	1880y	5	220.5	–11	11.7	13.8	12.0	14.7	24569
444	NIAGARA MOHAWK POWER	2129	–20	375	4152	6	177.0	–35	4.3	6.9	5.6	5.5	9649
445	SCANA	2119	–1	444	1322	5	157.2	–10	11.9	13.8	7.7	10.7	4393
446	STONE CONTAINER	2113	89	732	5749	14	–128.8	NM	NM	NM	NM	–45.7	7005
447	SONOCO PRODUCTS	2108	–5	435	2300	18	129.8	9	5.6	6.1	11.6	18.3	1835
448	BEAR STEARNS	2106	–14	371	3304	–3	216.2	–54	6.5	14.0	NA	11.2	66842
449	STRYKER	2104	34	559	682	22	72.4	20	10.6	10.8	13.6	21.2	768
450	CMS ENERGY	2102	8	480	3619	4	203.0	22	5.6	4.8	8.7	16.5	7380

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE

ATION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
50/36	191	26	0.00	0	NA	74	58	64.9	12	1.77	1.60	1.85	2.2	Fuel
36/18	124	19	5.84	110	–18	53	129	46.4	12	1.27	0.98	NA	NM	Publishing/TV
32/23	782	19	2.01	38	34	62	76	53.8	12	0.85	1.62	1.88	1.1	Nonbank financial
30/22	374	18	0.86	16	5	68	84	59.8	12	1.22	1.54	1.73	6.4	Automotive
36/30	423	28	2.79	77	–2	72	68	50.3	12	2.03	1.25	2.28	6.1	Chemicals
31/23	216	18	1.51	27	5	26	80	10.2	12	1.72	1.61	1.72	1.2	Publishing/TV
20/14	385	23	2.09	49	14	70	115	59.9	07	0.68	0.86	0.99	2.0	Conglomerates
25/19	427	16	2.40	37	15	57	93	69.7	12	1.28	1.61	1.83	2.2	Conglomerates
34/26	283	16	5.29	87	–13	62	82	54.5	12	1.71	1.71	1.90	7.9	Office equipment
52/39	131	17	4.08	68	23	38	47	77.9	12	1.83	2.96	2.98	7.7	Nonbank financial
49/34	228	44	2.14	93	35	78	49	83.0	06	1.34	1.07	3.67	3.5	Manufacturing
28/19	680	36	1.07	39	–2	36	87	30.8	12	0.74	0.72	1.01	6.9	Publishing/TV
24/18	117	11	8.57	93	–11	19	118	59.6	12	1.95	1.79	1.87	3.2	Utilities
57/25	853	33	0.00	0	95	72	44	342.1	12	0.69	1.60	2.01	4.0	Telecommunications
27/17	237	20	1.50	29	33	70	85	105.6	12	1.00	1.37	1.71	5.8	Manufacturing
52/40	361	24	0.00	0	1	75	45	61.7	03	1.75	2.15d	2.64	0.8	Health care
39/20	345	17	0.00	0	–30	74	86	198.1	01	1.34	1.59	1.92	2.6	Leisure
44/34	112	10	0.89	9	–7	74	59	46.3	12	4.28	3.71	3.67	10.6	Nonbank financial
34/26	449	15	3.06	46	17	42	69	12.5	04	2.04	2.17d	2.42	1.7	Consumer products
22/18	198	14	5.94	81	11	34	107	40.2	12	1.42	1.54	1.58	3.2	Utilities
42/21	290	NM	0.00	0	7	24	64	93.1	12	–0.30	–2.42	–3.58	9.2	Services
58/30	786	34	0.00	0	78	36	38	118.7	09	1.09	1.70	2.19	2.7	Electrical
40/25	277	14	0.42	6	24	72	58	76.4	12	2.16	2.70d	3.23	1.5	Nonbank financial
40/22	905	34	0.00	0	16	91	57	348.4	09	0.75	1.14	1.49	1.3	Office equipment
39/22	652	NM	0.56	200	23	83	61	384.4	11	1.22	0.10	1.76	5.1	Office equipment
55/43	178	NM	6.33	DEF	–6	61	46	55.6	12	3.80	–6.16	0.95	74.7	Fuel
47/35	153	62	3.61	222	14	62	49	68.4	12	1.99	0.72	4.95	4.6	Aerospace & defense
31/26	192	15	1.91	28	7	81	74	134.0	02	1.77	2.01d	2.28	2.6	Leisure
23/12	NEG	NM	0.00	0	NA	49	111	NA	12	–2.75	0.12	1.54	28.6	Containers
39/29	261	13	2.75	34	–9	71	65	66.8	12	1.25	2.67	2.55	3.5	Chemicals
26/17	216	18	0.00	0	–6	69	91	114.9	12	0.58	1.32	1.45	3.4	Leisure
30/18	1180	26	0.22	6	57	96	74	98.3	12	–0.66	1.12d	1.53	4.6	Services
65/46	549	13	0.00	0	20	67	37	42.0	12	1.11	4.66	5.50	4.9	Manufacturing
23/15	72	12	4.79	56	9	92	117	59.5	12	–1.51	1.58	1.66	14.5	Nonbank financial
38/29	136	11	6.97	75	–1	33	65	38.8	12	2.93	3.07	3.20	1.9	Utilities
28/21	134	10	2.60	27	–22	52	100	46.6	12	0.07	2.05	1.25	4.8	Publishing/TV
23/13	296	17	1.92	33	–15	60	137	108.7	12	0.81	0.91	1.11	7.2	Manufacturing
73/46	211	NM	2.58	280	–21	70	39	124.3	12	3.02	0.50	2.95	5.1	Transportation
52/36	223	25	2.65	65	9	27	44	33.7	12	1.46	1.97	3.56	12.4	Paper
36/28	230	12	5.31	64	10	35	65	23.1	12	–0.68	2.77	2.78	2.5	Telecommunications
23/15	366	27	1.29	35	–26	46	138	141.1	12	0.38	0.57	0.69	27.5	Metals
44/27	192	14	2.75	39	2	56	59	110.5	12	3.06	2.59	3.20	36.3	Banks
40/30	142	9	4.96	46	–3	32	63	27.7	12	4.20	3.69	4.06	5.7	Banks
20/12	82	15	7.59	112	–15	43	144	84.6	12	1.71	1.00	1.66	9.6	Utilities
47/41	150	14	6.39	88	2	44	48	26.2	12	3.72	3.19	3.64	1.9	Utilities
25/12	382	NM	0.00	0	48	63	90	174.1	12	–4.59	–1.75d	3.32	25.0	Containers
25/20	317	17	2.31	40	–2	33	87	48.5	12	1.35	1.40	1.61	3.1	Containers
22/15	123	6	3.20	21	–6	56	112	76.5	06	2.86	2.89	1.47	21.8	Nonbank financial
44/24	616	29	0.18	5	34	42	48	134.8	12	1.25	1.50	1.78	1.7	Health care
25/20	194	11	3.50	40	9	57	88	55.4	12	1.90	2.09	2.28	2.6	Utilities

OTES TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
					12 MONTHS	CHANGE	12 MONTHS	CHANGE FROM 1993	12 MONTHS 1994	12 MONTHS	ON INVESTED CAPITAL	ON COMMON EQUITY	12 MONTHS
451	BOSTON SCIENTIFIC	2098	38	574	449	18	79.7	14	17.8	18.3	24.9	23.5	432
452	NATIONAL SEMICONDUCTOR	2094	-14	411	2292	5	272.2	46	11.9	8.5	22.3	21.4	1801
453	RITE AID	2086	24	536	4258	6	40.4	-66	0.9	2.9	3.9	4.2	2123
454	FIRST USA	2085	20	524	898	54	138.8	116	15.4	11.0	25.6	21.1	6195
455	CIRCUIT CITY STORES	2084	14	498	5079	33	151.9	21	3.0	3.3	17.1	19.2	2411
456	NORTHWEST AIRLINES	2077	NA	NR	9143	6	295.5	NM	3.2	NM	12.3	NM	8291
457	AVERY DENNISON	2072	18	517	2857	10	109.4	31	3.8	3.2	12.3	14.4	1782
458	CARDINAL HEALTH	2066	54	572	6906	NA	44.6	NA	0.6	NA	7.6	8.9	1900
459	HARLEY-DAVIDSON	2060	10	490	1542	27	104.3	466	6.8	1.5	NA	25.9	696
460	ECHLIN	2055	17	514	2331	18	128.8	31	5.5	5.0	12.4	15.4	1653
461	HORMEL FOODS	2051	26	549	3079	7	132.9	29	4.3	3.6	20.0	20.1	1194
462	SENSORMATIC ELECTRONICS	2038	-5	442	762	39	83.8	33	11.0	11.5	9.5	10.7	1475
463	JOHNSON CONTROLS	2028	-16	414	7143	14	168.3	17	2.4	2.3	11.3	15.3	3897
464	PREMIER INDUSTRIAL	2025	7	439	778	9	100.7	10	12.9	12.8	21.5	21.8	530
465	NIPSCO INDUSTRIES	2021	1	472	1676	0	173.9	4	10.4	9.9	9.5	14.5	3945
466	WOOLWORTH	2020	-30	346	8549a	-14	-154.0	NM	NM	NM	NM	-11.9	4955
467	PEP BOYS-MANNY, MOE & JACK	2012	17	529	1368a	12	77.2	24	5.6	5.1	9.7	13.5	1251
468	JAMES RIVER CORP. OF VIRGINIA	2012	29	562	5417	17	-13.0	NM	NM	NM	NM	-4.1	7924
469	PACIFIC ENTERPRISES	2012	12	508	2664	-8	183.0	-4	6.9	6.6	7.8	13.5	5445
470	LOTUS DEVELOPMENT	1998	-36	332	971	1	-20.9	NM	NM	5.7	NM	-3.8	904
471	HILLENBRAND INDUSTRIES	1995	-32	341	1577	9	89.5	-32	5.7	9.2	11.7	13.5	2694
472	LINEAR TECHNOLOGY	1986	26	557	228	30	69.0	52	30.3	25.9	29.3	29.3	303
473	WHITMAN	1982	16	528	2659	5	106.4	0	4.0	4.2	11.1	19.8	2135
474	MARSHALL & ILSLEY	1982	-4	624	1179y	1	94.4	-45	8.0	14.7	7.8	9.0	12613
475	SUNBEAM-OSTER	1970	27	565	1198	12	107.0	20	8.9	8.3	17.1	20.2	1113
476	ASHLAND	1967	-20	406	9667	1	174.0	-1	1.8	1.8	8.6	11.7	5951
477	TANDEM COMPUTERS	1964	16	535	2167	7	180.5	NM	8.3	NM	17.6	19.2	1762
478	WESTERN RESOURCES	1956	4	487	1618	-15	187.4	6	11.6	9.3	8.8	11.8	5190
479	MURPHY OIL	1956	10	509	1769y	6	106.6	23	6.0	5.2	8.0	8.3	2271
480	BAUSCH & LOMB	1952	-34	338	1851	-1	13.5	91	0.7	8.4	3.1	1.3	2616
481	BENEFICIAL	1949	-1	478	2137	9	215.7	16	10.1	9.5	7.2	16.2	14377
482	BAY NETWORKS	1942	-20	412	838	31	70.4	-1	8.4	11.1	9.9	11.6	897
483	PACIFICARE HEALTH SYSTEMS	1938	37	610	3097y	29	89.9	35	2.9	2.8	17.6	20.9	1159
484	OMNICOM GROUP	1937	19	541	1756	16	108.1	27	6.2	5.6	16.3	20.1	2459
485	UNIFI	1927	17	542	1454	4	83.1	-30	5.7	8.4	11.5	14.5	981
486	FIRSTAR	1922	-4	463	1219	6	207.7	2	17.0	17.7	NA	15.9	15104
487	LYONDELL PETROCHEMICAL	1920	6	502	3857	0	223.0	NM	5.8	0.1	26.7	354.0	1663
488	ARROW ELECTRONICS	1916	-5	616	4649	31	111.9	5	2.4	3.0	11.6	13.4	2039
489	LEHMAN BROTHERS HOLDINGS ††	1913	NA	NR	2738	NA	126.0	NA	4.6	NA	NA	NA	121246
490	VULCAN MATERIALS	1912	8	510	1253	11	98.0	11	7.8	7.8	12.5	13.2	1181
491	BHC COMMUNICATIONS	1910	-6	456	438	6	92.9	-59	21.2	54.4	5.8	5.2	2189
492	PUBLIC SERVICE CO. OF COLORADO	1904	5	504	2057	3	170.3	8	8.3	7.9	11.0	12.7	4208
493	BRUNSWICK	1897	-6	460	2700	22	129.0	137	4.8	2.5	12.0	14.4	2122
494	LONG ISLAND LIGHTING	1895	-27	389	3067	6	301.9	2	9.8	10.3	7.5	10.3	13217
495	CUMMINS ENGINE	1892	1	533	4737	12	252.9	39	5.3	4.3	22.8	25.1	2706
496	ANALOG DEVICES	1891	38	620	800	15	82.9	61	10.4	7.4	14.1	15.2	836
497	PINNACLE WEST CAPITAL	1879	1	492	1685	3	226.9	13	13.5	12.3	8.0	11.4	7011
498	BIOMET	1879	52	657	399	13	74.2	13	18.6	18.6	18.0	18.0	498
499	ALZA	1877	2	495	261	19	58.1	36	22.3	19.5	10.2	16.6	806
500	IVAX	1871	-26	396	1135	7	89.9	-17	7.9	10.2	NA	16.0	1024

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
1 MONTH HIGH LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONAL HOLDING	SHARES OUT (M)	TURNOVER	FY	1994 ACTUAL $	1995 ACTUAL $	ANALYSTS' ESTIMATE 1996 EST $	LONG-TERM GROWTH ESTIMATION	
22/12	617	27	0.00	0	38	25	97	57.3	12	0.70	0.81	0.97	2.1	Health care
25/14	173	8	0.00	0	–22	78	123	229.9	05	1.98	2.03d	2.33	6.4	Electrical
26/18	215	15	2.75	41	33	81	84	93.3	02	0.30	1.66d	1.90	4.2	Health care
47/27	339	22	0.33	7	19	97	57	130.2	06	0.73	1.69	2.67	3.0	Nonbank financial
28/17	263	13	0.46	6	14	73	96	118.0	02	1.36	1.69d	2.00	8.0	Consumer products
26/12	NEG	8	0.00	0	NA	33	84	119.1	12	–2.82	2.92	3.00	11.0	Transportation
39/26	274	19	2.88	55	23	65	55	55.4	12	1.44	1.97	2.38	2.9	Manufacturing
51/34	413	43	0.24	11	29	66	42	79.7	06	NA	1.14	1.97	1.5	Health care
30/22	512	20	0.59	12	10	70	76	80.2	12	0.25	1.37	1.56	2.6	Leisure
35/25	246	17	2.20	37	18	83	59	84.6	08	1.60	2.06	2.54	2.8	Automotive
27/19	310	17	2.17	38	28	23	77	17.7	10	1.31	1.54	1.81	3.3	Food
39/26	261	24	0.78	19	–21	84	72	91.5	06	0.97	1.16	1.41	1.4	Electrical
61/45	195	13	3.14	41	–14	60	41	55.1	09	3.16	3.80	4.17	3.1	Electrical
26/18	438	19	1.84	34	–4	18	85	11.9	05	1.10	1.28d	1.45	2.8	Services
33/26	182	13	4.93	63	9	53	64	65.6	12	2.31	2.48	2.57	2.7	Utilities
22/13	156	21	3.93	81	–27	54	132	123.3	01	–3.76	0.74d	1.26	9.5	Retailing
37/27	353	25	0.55	14	16	62	61	88.2	01	1.06	1.32d	1.60	3.1	Retailing
26/16	142	NM	2.44	DEF	32	64	82	80.5	12	–0.40	–0.72	1.08	33.3	Paper
25/19	169	13	5.22	66	21	49	82	43.6	12	2.06	1.95	1.99	4.0	Utilities
87/30	361	NM	0.00	0	–40	94	48	869.0	12	1.24	–0.44	1.59	15.1	Office equipment
42/27	300	22	2.13	48	–31	39	71	29.7	11	1.86	1.26	2.06	4.9	Manufacturing
57/37	844	36	0.51	19	24	93	36	243.0	06	0.99	1.51	2.09	1.9	Electrical
19/15	369	19	1.80	34	20	75	105	37.4	12	0.99	1.00	1.30	0.8	Conglomerates
22/18	188	22	2.89	63	–1	41	96	33.1	12	1.87	0.95	2.17	2.8	Banks
26/18	372	19	0.16	3	18	36	81	46.8	12	1.01	1.30	1.53	0.7	Consumer products
45/31	148	11	3.40	37	–18	64	61	87.3	09	2.26	2.94	3.23	5.9	Fuel
20/11	209	11	0.00	0	14	74	116	118.7	09	–4.72	1.50	1.73	8.1	Office equipment
33/26	133	11	6.36	72	11	36	62	51.1	12	2.76	2.82	2.64	2.3	Utilities
49/39	153	18	2.98	55	13	61	45	37.0	12	1.94	2.37	2.05	7.3	Fuel
52/31	194	NM	2.97	426	–32	68	59	138.6	12	2.60	0.23	2.74	5.5	Health care
44/35	150	9	4.63	43	3	75	53	42.6	12	3.45	4.00	4.00	6.0	Nonbank financial
44/19	321	33	0.00	0	–21	NA	62	846.6	06	0.44	0.95	1.49	2.0	Office equipment
75/44	451	23	0.00	0	36	43	28	109.3	09	2.25	3.02	3.64	1.6	Health care
55/45	360	17	2.33	39	11	80	36	50.4	12	2.79	3.15	3.60	1.9	Services
29/21	336	26	1.42	37	23	69	68	40.6	06	1.87	1.08	1.58	3.2	Manufacturing
35/25	147	9	4.00	37	0	44	64	29.6	12	3.15	3.22	3.66	1.9	Banks
33/21	3048	9	3.75	32	10	52	80	94.1	12	0.06	2.78	4.72	12.9	Chemicals
44/34	229	13	0.00	0	–6	67	46	93.9	12	2.62	3.30d	3.59	5.0	Services
21/14	72	19	1.10	21	NA	63	106	NA	11	–3.20	0.94d	1.53	15.0	Nonbank financial
57/44	258	20	2.74	55	12	62	36	26.7	12	2.39	2.67	3.97	11.6	Housing
82/70	107	20	0.00	0	–6	21	26	6.6	12	8.67	3.71	NA	NM	Publishing/TV
32/25	153	12	6.53	78	9	33	62	55.0	12	2.43	2.57	2.56	2.7	Utilities
25/17	212	15	2.52	37	–4	71	95	77.0	12	0.57	1.35	1.71	9.4	Leisure
24/15	78	7	11.13	83	–23	39	118	99.6	12	2.15	2.15	2.14	2.8	Utilities
54/36	188	7	2.20	16	–5	66	42	95.6	12	4.95	6.11	6.05	9.1	Automotive
26/16	346	26	0.00	0	36	80	75	102.4	10	0.59	0.96	1.29	6.2	Electrical
22/16	107	9	4.19	39	5	68	87	61.4	12	1.95	2.30	2.02	2.5	Utilities
17/9	455	23	0.00	0	51	37	116	101.5	05	0.61	0.70d	0.83	3.6	Health care
27/17	537	32	0.00	0	2	61	82	116.4	12	0.54	0.71	0.93	6.5	Health care
38/15	333	28	0.28	8	–38	21	87	133.2	12	1.17	0.77	1.26	10.3	Health care

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGIN		RETURN		ASSETS
			FROM	AGO	MONTHS			CHANGE FROM 1993	MONTHS 1994	MONTHS 1993	INVESTED CAPITAL	COMMON EQUITY	1994
501	SERVICEMASTER	1864	–7	470	2985	8	139.9	–4	4.7	5.3	26.1	45.5	1231
502	MERCURY FINANCE	1857	5	512	234a	31	81.6	39	34.9	33.0	20.8	38.2	1101
503	AUTODESK	1854	35	615	455y	12	56.6	–9	12.5	15.3	17.4	17.4	482
504	INTERNATIONAL GAME TECHNOLOGY	1854	–49	275	684	27	135.7	18	19.8	21.2	22.7	26.1	907
505	DOLLAR GENERAL	1851	62	728	1347a	29	62.8	45	4.7	4.2	22.2	22.0	555
506	MANOR CARE	1848	13	548	1239	15	87.7	27	7.1	6.4	12.3	15.1	1247
507	NORTHERN TRUST	1839	–19	431	1479y	17	182.2	9	12.3	13.3	13.2	16.1	18562
508	ALLERGAN	1838	22	579	947	10	110.7	6	11.7	12.2	17.2	18.4	1060
509	RYDER SYSTEM	1831	–12	450	4686	11	153.5	34	3.3	2.7	8.2	13.9	4828
510	WORTHINGTON INDUSTRIES	1827	4	513	1409	19	99.3	28	7.0	6.6	17.1	18.3	861
511	SIGMA-ALDRICH	1819	–28	395	851	15	110.3	3	13.0	14.5	15.8	16.2	851
512	ST. JOE PAPER	1815	11	547	686a	16	42.1	247	6.1	2.0	4.1	4.6	1530
513	SUPERVALU	1808	–32	373	16360	2	52.6	–71	0.3	1.1	NM	4.4	4499
514	McCORMICK	1797	3	522	1695	9	61.2	–39	3.6	6.4	9.8	12.4	1569
515	STANLEY WORKS	1795	–7	485	2511	10	125.3	35	5.0	4.1	12.9	16.9	1701
516	BORDEN	1787	–16	447	5626	2	–539.0	NM	NM	NM	NM	NM	4014
517	MAYTAG	1784	–4	491	3373	13	151.1	195	4.5	1.7	14.2	20.7	2504
518	CINTAS	1782	20	583	565	15	57.6	20	10.2	9.8	14.6	16.9	527
519	HUBBELL	1779	–1	507	1014	22	106.5	61	10.5	8.0	18.4	17.9	1042
520	FRUIT OF THE LOOM	1777	–22	426	2298	22	60.3	–72	2.6	11.3	4.0	5.4	3164
521	HARRIS	1774	–12	459	3464y	8	130.8	9	3.8	3.7	9.2	11.2	2606
522	SCIENTIFIC-ATLANTA	1772	75	793	973	35	59.6	213	6.1	2.6	14.6	14.5	647
523	ILLINOVA	1768	9	550	1590	1	176.7	NM	11.1	NM	7.0	10.5	5577
524	DQE	1752	4	537	1236	3	162.7	8	13.2	12.5	NA	12.5	4427
525	RAYCHEM	1746	10	556	1503	8	–34.7	NM	NM	0.6	NM	–5.0	1392
526	BETHLEHEM STEEL	1731	–13	474	4819	11	80.5	NM	1.7	NM	6.8	3.5	5782
527	MERIDIAN BANCORP	1731	10	558	1226y	–2	162.1	8	13.2	12.1	13.3	13.2	15053
528	PAINEWEBBER GROUP	1725	26	636	3964y	–1	31.6	–87	0.8	6.1	28.6	2.6	36900
529	DANAHER	1720	65	768	1289y	20	81.7	52	6.3	5.0	15.7	19.2	1135
530	ARMSTRONG WORLD INDUSTRIES	1718	–15	462	2753	9	210.4	231	7.6	2.5	18.7	27.8	2274
531	SEAGATE TECHNOLOGY	1712	–6	499	3973	28	248.1	64	6.2	4.9	14.0	18.0	3043
532	PACCAR	1710	–24	427	4285y	27	204.5	44	4.8	4.2	NA	16.7	3928
533	SOUTHLAND	1704	–17	457	6760y	–1	92.0	NM	1.4	NM	NM	NM	1943
534	FOUNDATION HEALTH	1702	57	746	1939	–7	13.0	–85	0.7	4.2	2.7	2.0	1819
535	AMSOUTH BANCORPORATION	1691	4	626	1227y	17	127.3	–13	10.4	14.0	10.7	11.9	16778
536	GENERAL SIGNAL	1688	5	552	1528	13	104.1	6	6.8	7.2	13.7	18.1	1343
537	ADAPTEC	1687	49	727	438	23	80.7	47	18.4	15.5	25.5	26.1	398
538	PAGING NETWORK	1686	19	604	490	31	–18.0	NM	NM	NM	NM	NM	706
539	UNION TEXAS PETROLEUM HOLDINGS	1685	0	534	748	10	67.0	116	9.0	4.5	11.2	19.7	1333
540	HOST MARRIOTT	1685	6	599	1522a	–63	–32.0	NM	NM	2.5	NM	–3.8	3811
541	ST. JUDE MEDICAL	1685	27	630	360	42	79.2	–28	22.0	43.4	9.9	14.4	920
542	SOUTHTRUST	1679	12	581	1293y	17	173.0	15	13.4	13.7	14.0	15.3	17632
543	LEGGETT & PLATT	1679	–8	500	1858	22	115.4	34	6.2	5.6	15.1	19.4	1084
544	LITTON INDUSTRIES	1678	–45	333	3394a	–1	57.5	–35	1.7	2.6	11.2	8.8	2295
545	FRONTIER	1674	13	585	986	9	109.9	33	11.2	9.1	NA	13.8	1760
546	CENTURY TELEPHONE ENTERPRISES	1661	25	629	540	25	100.2	45	18.6	15.9	NA	16.3	1643
547	AMERICAN POWER CONVERSION	1658	–32	410	378	51	71.3	47	18.8	19.4	38.4	34.9	265
548	COMPUWARE	1655	5	639	480	35	56.7	9	11.8	14.6	20.6	21.7	466
549	MAPCO	1634	11	497	3059y	13	79.1	–38	2.6	4.7	8.2	13.4	2166
550	LTV	1630	17	649	4529	9	127.1	–67	2.8	9.3	12.7	14.1	5589

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P.

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12 MONTH HIGH LOW		P-E RATIO			TOTAL RETURN	INSTI-HOLDING	SHRS OUT MIL	TURN		ACTUAL	ACTUAL	EST	ATION	
27/22	607	13	3.77	51	–3	14	76	16.1	12	1.90	1.81	2.08	1.9	Services
19/11	820	22	2.00	43	7	46	116	40.3	12	0.56	0.74	0.93	3.2	Nonbank financial
42/23	569	34	0.61	21	37	81	47	393.0	01	1.25	1.14	1.91	6.3	Office equipment
33/13	356	13	0.86	11	–50	53	132	208.0	09	0.85	1.07	1.04	12.5	Manufacturing
36/20	648	27	0.58	16	62	61	53	129.3	01	0.90	1.28d	1.59	4.4	Retailing
31/24	318	20	0.30	6	13	53	62	44.6	05	1.29	1.50d	1.74	1.7	Health care
43/32	169	11	3.06	33	–18	69	54	63.5	12	2.96	3.17	3.58	2.5	Banks
31/20	305	17	1.52	25	25	82	64	45.3	12	1.58	1.73	1.87	3.2	Health care
28/20	165	12	2.58	31	–11	89	79	67.5	12	1.43	1.95	2.22	2.7	Transportation
24/18	336	17	1.99	34	5	51	91	50.6	05	0.94	1.19d	1.38	6.5	Metals
55/30	267	17	0.99	16	–27	62	50	133.8	12	2.15	2.21	2.43	2.9	Health care
63/49	197	43	0.34	15	11	91	31	7.0	12	0.39	1.38	1.75	NM	Containers
37/22	152	11	3.65	42	–28	76	70	71.0	02	2.58	2.25d	2.49	3.6	Food
24/18	363	30	2.35	69	5	46	81	95.6	11	1.22	0.75	1.46	2.7	Food
44/35	242	14	3.47	50	–3	69	44	30.5	12	2.06	2.80	3.15	4.4	Manufacturing
16/11	1279	NM	0.32	DEF	–15	45	142	121.2	12	–0.40	–3.75	0.76	21.1	Food
20/14	244	12	3.01	35	–2	56	107	102.2	12	0.48	1.42	1.53	5.9	Consumer products
39/30	525	28	0.45	13	20	39	47	46.5	05	1.12	1.35d	1.60	1.3	Services
60/50	299	17	3.03	51	2	56	33	23.9	12	2.00	3.20	3.70	1.4	Electrical
33/23	158	30	0.00	0	–22	76	76	103.7	12	2.80	0.79	2.31	6.1	Consumer products
51/38	151	15	2.76	40	–8	80	39	73.7	06	2.82	3.07	3.86	1.6	Electrical
24/12	430	51	0.26	13	73	86	76	137.5	06	0.33	0.46	0.85	4.7	Telecommunications
24/18	122	12	4.28	50	13	62	76	67.6	12	–1.08	2.01	2.16	2.3	Utilities
34/28	139	11	5.25	59	11	36	52	39.2	12	2.67	2.98	3.01	2.0	Utilities
42/32	253	NM	0.80	800	8	83	43	56.2	06	0.19	0.04	2.05	34.1	Electrical
24/15	162	45	0.00	0	–28	88	110	136.3	12	–3.37	0.35	2.98	20.1	Metals
33/26	141	11	4.44	49	18	40	57	84.0	12	2.61	2.80	3.18	5.0	Banks
20/13	141	42	2.76	117	1	41	99	56.8	12	3.11	0.41	1.66	14.5	Nonbank financial
30/18	405	21	0.27	6	61	81	58	30.3	12	0.93	1.40	1.64	7.3	Manufacturing
58/36	250	10	2.80	28	–13	89	38	124.2	12	1.26b	4.64	4.93	4.3	Consumer products
29/19	124	8	0.00	0	–7	91	71	430.2	06	2.71b	2.83	3.63	5.0	Office equipment
60/40	140	8	6.82	57	–19	46	39	62.8	12	3.66	5.26	5.50	4.4	Automotive
6/4	NEG	19	0.00	0	–17	7	410	13.4	12	–0.03	0.22	0.15	26.7	Food
46/26	257	11	0.00	0	–22	47	57	150.0	06	2.05	2.84	2.43	3.7	Health care
35/25	128	13	5.22	68	0	42	58	37.7	12	3.10	2.25	3.04	6.6	Banks
38/30	294	16	2.68	44	8	87	47	76.6	12	1.47	2.20	2.71	2.2	Manufacturing
33/14	546	19	0.00	0	52	92	51	353.7	03	1.10	1.73d	2.31	3.9	Electrical
37/21	NEG	NM	0.00	0	19	81	51	174.6	12	–0.40	–0.35	–0.26	119.2	Telecommunications
22/16	498	25	1.04	26	1	64	88	43.5	12	0.35	0.76	0.96	13.5	Fuel
12/8	231	NM	0.00	0	–10	62	153	71.3	12	0.43	–0.12d	–0.02	200.0	Leisure
41/25	307	21	0.00	0	28	57	46	183.4	12	2.32	1.69	2.65	4.5	Health care
22/17	149	10	3.88	37	13	41	81	52.5	12	1.94	2.15	2.36	2.1	Banks
47/33	282	15	1.76	26	–8	56	41	54.6	12	2.09	2.78	3.04	2.6	Consumer products
75/29	261	33	0.00	0	17	83	46	71.9	07	2.10	1.10	2.83	1.4	Electrical
25/19	213	15	3.63	55	9	42	73	33.8	12	1.21	1.50	1.57	1.9	Telecommunications
33/22	271	16	1.06	18	20	65	54	47.4	12	1.35	1.88	1.83	3.8	Telecommunications
31/15	894	23	0.00	0	–33	51	92	300.7	12	0.53	0.77	1.03	4.9	Electrical
49/31	602	19	0.00	0	2	73	45	262.2	03	1.52	1.95d	2.55	1.6	Office equipment
65/50	277	21	1.83	38	–9	73	30	47.9	12	4.24	2.64	5.30	1.7	Fuel
21/14	184	12	0.00	0	–8	73	106	111.0	12	4.88	1.29	2.53	9.1	Metals

OTES TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS						ASSETS
551	LOCTITE	1627	10	584	704	15	82.4	21	11.7	11.1	20.9	20.0	669
552	DELL COMPUTER	1622	71	832	3475	31	149.2	NW	4.3	NW	20.4	24.1	1594
553	McKESSON	1620	-38	388	13018	8	-192.4	NW	NW	1.1	NW	-20.0	3505
554	UNISYS	1620	-34	403	7400	-4	108.0	-70	1.5	4.7	5.6	-1.1	7324
555	BMC SOFTWARE	1616	-9	606	329	20	69.1	-15	21.0	29.6	23.3	23.3	466
556	ROYAL CARIBBEAN CRUISES	1615	-7	NA	1171	5	142.3	33	12.2	9.6	12.1	18.0	1874
557	MIDLANTIC	1614	11	595	1052	5	279.1	112	26.5	13.1	NW	21.9	13289
558	CRESTAR FINANCIAL	1610	-2	648	1065	10	169.1	20	15.9	14.5	14.3	15.0	14010
559	WITCO	1607	-6	631	2225	4	107.1	442	4.8	0.9	9.9	11.5	1920
560	AMERICAN RE	1606	31	673	1679	16	97.5	-10	5.8	7.5	9.9	12.3	6678
561	KANSAS CITY SOUTHERN INDUSTRIES	1604	-17	483	1098	14	104.9	8	9.6	10.1	9.5	16.2	2122
562	MERCANTILE BANCORPORATION	1594	25	736	1013	-1	161.0	35	15.7	11.6	18.6	15.4	12242
563	WENDY'S INTERNATIONAL	1586	-11	601	1670	5	97.2	23	7.1	6.1	12.7	14.6	1053
564	TAMBRANDS	1585	-3	644	646	5	89.7	22	13.9	12.1	66.3	119.0	396
565	VARITY	1578	-21	468	2356a	9	107.5	84	4.6	2.7	NA	13.1	1887
566	AVNET	1575	-10	518	3512	31	114.4	62	3.0	2.4	8.4	9.9	1962
567	BANDAG	1567	-2	568	651	10	94.0	19	14.4	13.3	NA	21.6	582
568	ECOLAB	1564	1	594	1008	10	84.6	1	7.0	7.5	17.9	19.7	1020
569	MARVEL ENTERTAINMENT GROUP	1561	-37	405	515	24	61.8	10	12.0	13.5	11.6	28.0	771
570	ADC TELECOMMUNICATIONS	1560	49	764	479	27	44.3	34	9.2	8.7	16.7	16.7	342
571	XILINX	1557	26	659	321	39	51.5	39	16.0	16.1	25.6	25.6	279
572	UJB FINANCIAL	1554	9	623	1069	3	131.9	68	13.1	7.4	13.3	12.3	15429
573	ATMEL	1549	58	614	375	69	59.5	98	15.9	13.5	15.6	17.6	487
574	DOLE FOOD	1546	-22	471	3842	12	67.9	-13	1.8	2.3	5.3	6.2	3690
575	NEW YORK STATE ELECTRIC & GAS	1539	-10	484	1599	5	157.6	13	9.9	9.2	7.9	10.3	5167
576	APACHE	1536	1	870	646	17	42.8	15	7.9	8.0	4.8	5.3	1715
577	MERCANTILE STORES	1532	8	608	2800	3	104.5	21	3.7	3.2	7.5	7.8	2045
578	STAPLES	1518	41	745	2011	53	39.9	105	2.0	1.5	8.0	8.9	950
579	QUALCOMM	1517	32	711	294	53	16.1	-14	5.5	9.7	4.5	6.0	350
580	VALUE HEALTH	1507	-8	704	976	42	49.8	609	5.1	1.0	NA	13.4	536
581	IBP	1506	31	704	12075	3	182.3	135	1.5	0.7	17.9	23.4	1865
582	McDERMOTT INTERNATIONAL	1505	11	468	1960	1	41.5	61	1.4	3.4	8.2	6.4	4092
583	KOHL'S	1500	-20	493	1447a	18	60.8	25	4.3	4.1	13.9	21.0	725
584	ALLEGHENY LUDLUM	1496	2	638	1077	-2	18.2	-74	1.7	6.4	4.6	4.9	1088
585	E-SYSTEMS	1489	-3	567	2028	-3	95.6	-22	4.7	5.8	11.9	11.8	1352
586	OWENS-CORNING FIBERGLAS	1486	-19	523	3351	14	74.0	-30	2.2	3.6	35.5	NW	3274
587	REGIONS FINANCIAL	1485	20	565	897	36	145.9	30	16.3	17.0	11.8	14.4	12839
588	COUNTRYWIDE CREDIT INDUSTRIES	1484	-2	575	917	-1	116.1	-32	12.5	18.3	21.3	12.5	6319
589	KANSAS CITY POWER & LIGHT	1478	10	625	868	1	104.8	-1	12.1	12.3	7.8	11.5	2770
590	SUNDSTRAND	1474	1	474	1173	-1	95.6	5	7.0	8.2	12.1	13.5	1581
591	SUNAMERICA	1468	24	693	917	3	170.9	23	18.6	15.4	19.8	22.7	14656
592	SNAP-ON	1457	11	464	1194	-6	98.3	15	8.2	7.5	11.7	13.0	1211
593	OXFORD HEALTH PLANS	1449	44	801	701	131	27.9	87	3.9	4.8	23.7	23.7	315
594	YORK INTERNATIONAL	1448	1	597	2422	19	89.8	19	3.7	3.7	13.4	17.6	1588
595	ILLINOIS CENTRAL	1443	-5	571	594	5	113.9	24	19.2	16.2	17.1	24.4	1309
596	CENTERIOR ENERGY	1443	-17	521	2421	-1	269.8	NW	11.1	NW	NW	11.0	10518
597	CERIDIAN	1430	42	811	916	3	78.6	NW	8.6	NW	44.0	40.1	690
598	THERMO INSTRUMENT SYSTEMS	1430	-4	591	641	14	55.2	35	8.6	7.1	9.4	13.2	1012
599	AMBAC	1430	-3	586	225	-10	141.1	21	62.7	62.2	12.4	13.7	4293
600	MULTIMEDIA	1430	23	499	630	3	90.0	5	14.3	14.0	28.2	NW	684

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
	BOOK				TOTAL	INSTI TUTIONS HOLDING	SHRS OUT MIL			1992 ACTUAL	ACTUAL	1995		
48/39	394	20	1.83	36	12	46	35	22.7	12	1.92	2.33	2.71	2.2	Chemicals
48/21	279	12	0.00	0	66	64	39	998.9	01	–1.06	3.38	4.44	9.9	Office equipment
109/30	164	14	2.71	38	78	0	44	188.7	03	3.68	2.65d	2.90	4.8	Health care
17/8	145	NM	0.00	0	–38	42	180	129.2	12	1.46	–0.07	0.98	11.2	Office equipment
71/40	545	16	0.00	0	–7	NA	25	599.7	03	2.16	4.05d	4.83	2.1	Office equipment
31/24	204	11	1.73	20	–5	NA	63	12.1	12	1.80	2.25	NA	NM	Leisure
32/24	128	6	2.86	17	13	46	53	147.0	12	2.51	5.18	3.60	2.5	Banks
50/36	143	10	3.71	36	2	48	37	56.6	12	3.68	4.47	4.92	1.8	Banks
35/24	173	15	3.91	58	–12	77	56	51.6	12	0.46	1.92	2.15	2.8	Chemicals
36/24	203	17	0.00	0	31	30	47	25.0	12	2.22	2.01	2.86	6.3	Nonbank financial
53/30	248	16	0.81	13	–18	54	44	105.7	12	2.16	2.32	3.07	2.6	Transportation
39/30	153	10	3.04	30	22	47	43	30.6	12	3.31	3.74	4.05	1.2	Banks
19/13	238	17	1.54	26	–10	53	102	84.6	12	0.77	0.94d	1.08	1.9	Leisure
45/35	2102	18	4.07	72	5	75	37	112.8	12	1.91	2.43	2.55	7.1	Consumer products
50/33	196	14	0.00	0	–20	84	43	109.6	01	1.80	2.55d	3.53	4.3	Manufacturing
45/31	136	18	1.55	28	–9	82	41	72.4	06	1.91	2.16	3.00	2.0	Services
62/49	361	17	1.33	23	3	28	26	26.5	12	2.88	3.51	3.87	2.6	Automotive
24/19	364	19	2.16	40	3	46	68	27.0	12	1.23	1.25	1.53	1.3	Consumer products
26/13	708	26	0.00	0	–38	NA	100	52.1	12	0.55	0.60	0.80	11.3	Publishing/TV
57/32	589	38	0.00	0	48	76	28	161.8	10	1.15	1.46	1.78	2.8	Telecommunications
68/29	774	29	0.00	0	23	97	23	552.1	03	1.71	2.28d	2.97	6.1	Electrical
29/23	147	12	3.68	44	11	43	55	58.7	12	1.42	2.38	3.09	1.9	Banks
38/20	458	26	0.00	0	44	75	45	425.4	12	0.74	1.33	1.75	5.7	Electrical
36/23	141	23	1.54	35	–21	61	59	48.5	12	1.30	1.14	1.98	9.6	Food
28/18	94	9	6.51	59	–15	34	72	63.3	12	2.08	2.37	2.38	3.8	Utilities
29/22	190	36	1.12	40	1	78	61	145.3	12	0.70	0.70	0.61	41.0	Fuel
57/31	114	15	2.45	36	11	38	37	103.1	01	2.35	2.84	3.04	2.0	Retailing
28/16	422	38	0.00	0	18	82	63	201.9	01	0.33	0.64	0.84	3.6	Retailing
34/15	564	NM	0.00	0	30	35	52	275.3	09	0.25	0.28	0.57	10.5	Electrical
52/32	407	31	0.00	0	–11	68	40	115.0	12	0.22	1.19	1.76	1.1	Health care
36/23	193	8	0.63	5	32	96	47	116.5	12	1.62	3.79	3.89	6.4	Food
28/19	288	35	3.57	125	25	82	54	79.6	03	1.57	0.80d	1.62	22.2	Manufacturing
55/38	501	22	0.00	0	–20	81	37	83.1	01	1.52	1.86d	2.28	2.2	Retailing
22/17	401	81	2.27	185	9	50	71	54.1	12	1.06	0.26	1.47	15.6	Metals
47/36	184	16	2.74	43	–1	62	34	74.6	12	3.58	2.79	3.92	1.8	Electrical
41/28	NEG	20	0.00	0	–17	81	44	126.6	12	2.28b	1.66	4.11	5.6	Housing
37/30	147	10	3.64	35	13	32	45	63.0	12	3.01	3.40	3.75	0.8	Banks
19/12	160	17	1.97	33	–1	78	91	152.2	02	1.97	0.98d	1.47	15.0	Nonbank financial
25/19	168	15	6.37	93	17	27	62	42.4	12	1.66	1.64	1.93	2.6	Utilities
52/41	285	16	2.62	41	3	84	32	63.3	12	2.56	2.92	3.34	5.1	Aerospace & defense
46/34	250	11	1.46	17	17	68	36	80.2	09	2.75	3.58	4.39	2.7	Nonbank financial
44/29	193	15	3.18	47	–20	70	43	56.8	12	2.02	2.30	2.63	3.0	Manufacturing
96/40	1228	55	0.00	0	41	95	16	664.6	12	0.91	1.64	2.56	5.5	Health care
43/34	284	16	0.42	7	1	80	38	61.4	12	2.01	2.40	2.81	2.1	Housing
38/29	336	13	2.95	37	–3	84	43	83.3	12	2.14	2.67	2.97	2.7	Transportation
12/8	78	7	8.21	58	–11	37	148	57.9	12	–6.51	1.38	1.55	9.7	Utilities
32/21	874	23	0.00	0	38	92	45	119.2	12	–0.53b	1.40	1.44	10.4	Office equipment
33/27	341	25	0.00	0	–6	11	47	14.0	12	1.00	1.22d	1.48	4.1	Electrical
43/30	138	10	1.33	13	–1	99	35	57.8	12	5.08	4.01	4.68	4.1	Nonbank financial
39/26	NEG	16	0.00	0	22	78	38	102.7	12	2.23	2.35	2.01	10.9	Publishing/TV

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SIEMENS

1847. That was then.

Werner Siemens opens his first factory, a small shop to manufacture the world's most advanced telegraph.

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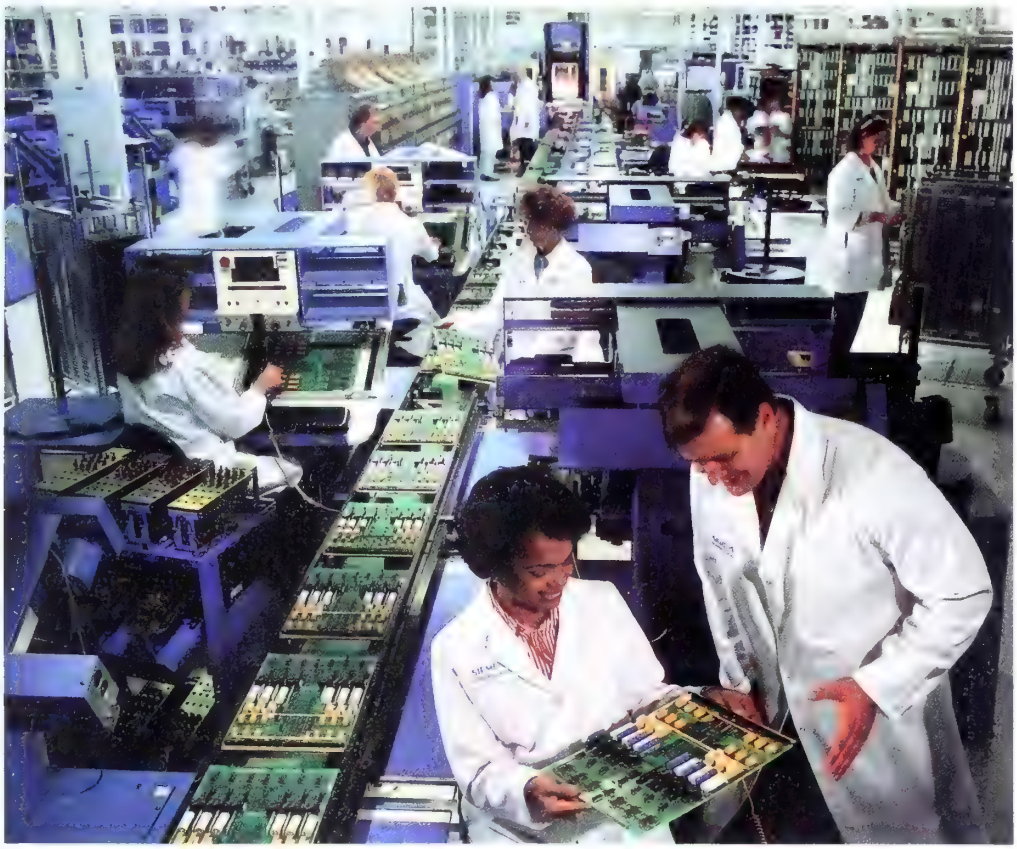
1995. This is now.



All across America, more than 75 Siemens manufacturing and assembly plants are turning out an astonishing variety of high-tech electronic and electrical products with quality American industry can count on. Over 20,000 Siemens U.S. employees have manufacturing jobs in these plants, and are helping to build products in a wide range of fields, including energy, communications, automotive, medical and automation technology. In fact, 14% of Siemens' $7.3 billion annual sales are derived from exports from these factories to the rest of the world.
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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGIN		RETURN		ASSETS	
					12 MONTHS 1994 $MIL	CHANGE FROM 1993	12 MONTHS 1994 $MIL	CHANGE FROM 1993	12 MONTHS 1994	12 MONTHS 1993	ON INVESTED CAPITAL	ON COMMON EQUITY	12 MONTHS 1994 $MIL	CHANGE FROM 1993
501	SANTA FE PACIFIC GOLD	1429	NA	NR	376	61	56.7	105	15.1	11.8	10.8	11.2	833	N
502	BRINKER INTERNATIONAL	1428	–32	451	955	20	68.5	21	7.2	7.1	15.0	14.7	604	2
503	OKLAHOMA GAS & ELECTRIC	1428	1	603	1355	–6	123.8	8	9.1	7.9	10.1	13.2	2783	
504	OLSTEN	1427	11	645	2260y	5	70.1	NM	3.1	NM	15.5	19.1	726	
505	GIANT FOOD	1408	–9	564	3650	4	89.9	–2	2.5	2.6	11.4	12.4	1362	
506	INTEGRA FINANCIAL	1403	–7	578	1064	0	169.0	11	15.9	14.3	12.9	18.3	13755	
507	C. R. BARD	1392	-5	590	1018	5	74.9	21	7.4	6.4	16.4	17.0	958	2
508	POLAROID	1392	6	587	2313	3	117.2	73	5.1	3.0	10.5	14.5	2217	
509	FLIGHTSAFETY INTERNATIONAL	1390	3	621	301	1	74.5	12	24.7	22.4	13.1	13.6	793	
510	BEMIS	1389	20	702	1390	16	72.8	58	5.2	3.8	13.3	17.4	923	
511	A. G. EDWARDS	1387	5	539	1208	–4	132.1	–13	10.9	12.0	13.4	15.0	2168	
512	CINCINNATI BELL	1385	29	751	1228	13	75.6	NM	6.2	NM	NM	14.0	1723	
513	AES	1382	-17	543	533	3	98.3	38	18.5	13.7	10.9	26.0	1900	
514	IMC GLOBAL	1378	17	787	1719	60	72.2	NM	4.2	NM	10.9	10.8	2677	
515	KEMPER	1375	3	635	1602y	3	85.7	NM	5.4	NM	NA	6.2	13877	
516	USF&G	1374	13	679	3221	–1	232.0	83	7.2	3.9	NM	20.0	13774	
517	PUGET SOUND POWER & LIGHT	1368	–5	596	1194	7	120.1	–13	10.1	12.4	7.4	8.9	3464	
518	BIOGEN	1365	–4	602	156y	5	–4.9	NM	NM	21.8	–1.5	–1.5	379	
519	HEALTHSOURCE	1361	51	857	584	101	39.0	50	6.7	9.0	12.3	12.5	423	4
520	CRACKER BARREL OLD COUNTRY STORE	1359	–13	560	711	23	61.6	20	8.7	8.8	13.3	13.8	543	
521	VISHAY INTERTECHNOLOGY	1355	82	969	988	15	58.9	38	6.0	5.0	8.2	10.8	1332	4
522	ADVANTA	1355	11	678	448y	16	106.0	36	23.7	20.1	10.1	25.5	3094	4
523	CLAYTON HOMES	1353	3	640	692	28	76.0	23	11.0	11.4	NA	15.8	699	
524	MICHIGAN NATIONAL	1346	36	807	897y	–4	224.3	NM	25.0	0.3	NM	17.2	8692	
525	INTUIT ††	1344	57	NR	231	NA	–39.3	NA	NM	NM	NA	NA	341	2
526	SYNOVUS FINANCIAL	1337	15	700	652	12	86.4	17	13.3	12.8	15.7	17.0	6115	
527	KLA INSTRUMENTS	1337	72	877	323	62	33.6	117	10.4	7.8	14.5	13.9	345	
528	TRINITY INDUSTRIES	1337	–24	519	2129	24	78.6	16	3.7	3.9	11.3	13.0	1371	
529	FIRST TENNESSEE NATIONAL	1336	23	747	1058y	10	146.3	38	13.8	11.1	22.7	19.5	10522	
530	GATEWAY 2000	1330	–23	527	2701	56	96.0	–37	3.6	8.7	26.4	28.6	771	
531	HARNISCHFEGER INDUSTRIES	1329	88	999	1140y	14	19.1	NM	1.7	NM	NA	4.1	1895	
532	MGM GRAND	1327	-15	561	742	NA	73.5	NA	9.9	NA	13.3	14.4	1141	
533	AMERICAN NATIONAL INSURANCE	1324	–4	614	1395	5	215.1	16	15.4	14.0	NA	NA	5961	
534	NATIONAL SERVICE INDUSTRIES	1323	–3	617	1903	4	84.6	12	4.4	4.1	11.4	11.5	1115	
535	TERADYNE	1322	28	775	677	22	70.9	97	10.5	6.5	15.4	15.4	650	
536	TRANSATLANTIC HOLDINGS	1318	23	752	917a	35	95.6	8	10.4	13.0	12.5	13.3	3458	
537	CABLEVISION SYSTEMS	1317	–11	588	837	26	–315.2	NM	NM	NM	NM	NM	2183	
538	COLUMBIA GAS SYSTEM	1315	–8	598	2833	–16	246.2	62	8.7	4.5	18.5	17.7	6964	
539	HEALTH SYSTEMS INTERNATIONAL	1313	4	NR	2306	18	88.1	270	3.8	1.2	27.1	39.6	890	
540	STRATACOM	1312	419	NR	154	107	19.8	163	12.8	10.1	34.2	34.4	187	2
541	KING WORLD PRODUCTIONS	1310	–6	611	435	–13	77.4	–24	17.8	20.5	15.9	15.9	612	
542	LEUCADIA NATIONAL	1306	13	703	1349a	–7	72.5	–47	5.4	9.4	5.5	8.2	4679	
543	THOMAS & BETTS	1305	7	676	1076	12	1.9	–96	0.2	4.6	NA	0.3	1208	
544	AMDAHL	1298	93	NR	1639	–3	74.8	NM	4.6	NM	9.2	9.0	1719	
545	UTILICORP UNITED	1294	5	670	1515	–4	94.4	9	6.2	5.5	9.0	10.1	3111	
546	CABOT	1292	32	813	1709	6	96.6	133	5.7	2.6	14.2	16.8	1617	
547	TIG HOLDINGS	1288	-3	632	1765a	–9	52.8	NM	3.0	NM	4.8	4.7	6170	
548	HOSPITALITY FRANCHISE SYSTEMS	1285	–1	641	313y	22	53.5	56	17.1	13.4	9.9	15.7	804	
549	LG&E ENERGY	1283	8	688	830	–8	62.7	–28	7.6	9.6	5.9	7.4	2301	
	INTEGRATED DEVICE TECHNOLOGY	1283	52	955	388	28	69.9	163	18.0	8.8	46.3	44.2	513	

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE 1

UATION			DIVIDENDS			SHARES			EARNINGS PER SHARE					INDUSTRY GROUP
12 MONTH HIGH/LOW	PRICE AS % OF 52-WEEK HIGH	P/E RATIO		PAYOUT	5-YR. GROWTH	INSTITUTIONAL HOLDING	OUTSTANDING MIL.	TURNOVER	FY	12 MO. ACTUAL	5-YR. ACTUAL	1994 EST	5-YR. GROWTH	
18/9	282	24	0.00	0	NA	18	131	NA	12	0.25	0.46	0.34	41.2	Metals
34/15	314	24	0.00	0	–34	87	72	138.4	06	0.69	0.83	1.04	1.0	Leisure
36/29	155	12	7.52	88	8	26	40	66.8	12	2.78	3.01	3.06	2.6	Utilities
39/29	389	21	0.93	19	9	66	42	47.2	12	–0.30	1.67	2.04	3.9	Services
26/20	194	15	3.03	46	–6	42	59	30.7	02	1.53	1.56d	1.70	4.7	Food
50/37	152	9	4.21	36	–1	49	33	29.1	12	4.50	5.01	5.11	3.5	Banks
28/22	317	19	2.24	42	–3	64	52	68.0	12	1.19	1.44	2.01	1.5	Health care
37/29	172	12	2.00	24	–3	81	46	59.1	12	1.45	2.49	2.63	5.7	Leisure
45/35	255	19	1.08	20	6	55	31	29.6	12	2.01	2.35	2.50	4.0	Transportation
27/21	332	19	2.36	46	22	48	51	30.0	12	0.89	1.40	1.62	3.1	Containers
23/17	157	11	2.49	28	4	46	62	56.1	02	2.57	1.97d	2.14	10.7	Nonbank financial
21/15	257	18	3.81	70	32	32	66	17.7	12	–0.93	1.15	1.24	8.1	Telecommunications
23/16	365	14	0.00	0	–17	33	75	39.3	12	0.98	1.30	1.39	1.4	Utilities
49/31	206	NM	0.21	DEF	2	96	29	169.9	06	–5.44	–0.14	3.99	9.3	Chemicals
65/36	138	22	2.29	51	2	50	34	308.2	12	–2.52	1.80	4.01	9.5	Nonbank financial
16/12	148	7	1.39	9	2	40	96	77.5	12	0.93	2.14	1.32	10.6	Nonbank financial
23/17	117	13	8.56	112	3	23	64	43.5	12	2.00	1.64	1.91	3.1	Utilities
56/27	426	NM	0.00	0	–6	83	33	714.9	12	0.93	–0.15	0.15	133.3	Health care
46/26	437	35	0.00	0	43	78	31	85.8	12	0.96	1.24	1.62	4.3	Services
29/18	305	24	0.09	2	–14	37	60	160.9	07	0.78	0.94	1.13	1.8	Leisure
55/31	247	21	0.00	0	61	60	25	57.4	12	1.91	2.52	3.21	2.8	Electrical
42/24	327	13	0.80	10	11	21	40	87.2	12	1.95	2.58	3.08	1.9	Nonbank financial
19/12	280	19	0.11	2	–4	63	76	78.9	06	0.76	0.94	1.13	6.2	Housing
103/59	135	9	2.16	20	59	71	13	231.7	12	1.56b	10.94	7.45	7.2	Banks
73/27	718	NM	0.00	0	47	41	20	243.8	12	0.74	–10.43	1.14	2.6	Office equipment
20/17	263	15	2.28	35	16	9	68	9.2	12	1.11	1.29	1.48	2.0	Banks
60/30	553	42	0.00	0	48	91	23	486.8	06	0.35	1.37	2.84	1.1	Electrical
44/30	221	15	2.05	31	–24	79	40	90.7	03	1.69	2.17d	3.07	8.8	Transportation
48/38	178	9	4.53	41	13	45	32	73.2	12	4.26	4.56	4.88	1.6	Banks
25/9	396	15	0.00	0	-23	12	72	196.9	12	2.13	1.22	2.09	5.3	Office equipment
29/19	276	38	1.44	54	12	54	48	75.2	10	–0.67	0.74	1.44	9.0	Manufacturing
33/23	259	18	0.00	0	–15	9	49	52.1	12	–2.47	1.50	1.64	4.3	Leisure
54/44	67	6	4.72	28	1	19	26	11.3	12	7.00	8.35	5.90	NM	Nonbank financial
28/25	180	16	4.17	67	1	65	49	31.9	08	1.52	1.67	1.85	2.2	Electrical
37/20	286	19	0.00	0	26	89	36	128.5	12	1.00	1.91	2.55	5.1	Electrical
60/45	173	13	0.63	8	24	85	23	22.4	12	3.79	4.44	4.88	5.1	Nonbank financial
64/39	NEG	NM	0.00	0	–13	35	24	49.6	12	–10.83	–13.72	–8.66	9.2	Publishing/TV
31/22	94	5	0.00	0	–8	65	51	51.5	12	3.01	4.87	3.21	9.7	Utilities
37/21	591	15	0.00	0	5	15	48	56.8	12	0.48	1.77	2.08	3.4	Services
43/7	2284	67	0.00	0	355	71	35	578.4	12	0.23	0.55	0.99	6.1	Telecommunications
44/33	269	15	0.00	0	–4	61	37	98.4	08	2.65	2.33	2.91	4.1	Leisure
49/35	147	15	0.54	8	13	30	28	25.0	12	3.97	3.10d	4.00	NM	Nonbank financial
71/61	236	NM	3.36	2240	8	76	20	48.2	12	2.91	0.10	4.08	3.2	Electrical
12/5	156	18	0.00	0	89	41	117	67.3	12	–5.17	0.63	0.84	20.2	Office equipment
32/25	143	14	5.96	83	5	23	45	30.5	12	1.95	2.08	2.21	1.8	Utilities
35/24	233	17	1.65	29	33	62	38	49.6	09	0.90	1.96	2.87	9.4	Chemicals
22/17	120	26	0.96	25	1	95	62	46.9	12	–2.04	0.79	1.95	9.2	Nonbank financial
34/21	377	27	0.00	0	2	99	45	117.6	12	0.69	1.06	1.36	5.1	Services
40/34	168	23	5.53	125	14	28	33	27.4	12	2.47	1.72	2.89	2.1	Utilities
39/16	812	19	0.00	0	47	72	34	881.0	03	1.21	2.04d	2.45	8.6	Electrical

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	COMPANY	MARKET VALUE $M	CHANGE FROM 1993 %	RANK AND RANK	SALES 12 MONTHS 1994 $M	CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $M	CHANGE FROM 1993 %	MARGINS 12 MONTHS 1994 %	MARGINS 12 MONTHS 1993 %	RETURN ON INVESTED CAPITAL %	RETURN ON COMMON EQUITY %	ASSETS 12 MONTHS 1994 $M	CHANGE FROM 1993 %
551	TELEDYNE	1283	11	704	2391	–4	–8.4	NM	NM	2.9	NM	–3.1	1478	[illegible]
552	OLD KENT FINANCIAL	1282	3	653	875y	8	136.1	6	15.6	15.9	18.3	15.9	10533	[illegible]
553	INLAND STEEL INDUSTRIES	1281	–6	619	4497	16	107.4	NM	2.4	NM	10.8	15.4	3353	[illegible]
554	NICOR	1276	–12	593	1609	–4	109.5	0	6.8	6.5	NA	16.0	2210	[illegible]
555	OLD REPUBLIC INTERNATIONAL	1276	4	667	1679	–3	150.9	–9	9.0	9.6	9.0	11.0	6263	[illegible]
556	ALUMAX	1275	6	686	2755	17	46.7	NM	1.7	NM	4.7	3.3	2842	[illegible]
557	NOBLE AFFILIATES	1275	–1	642	358	25	3.2	–75	0.9	4.4	2.7	3.5	965	[illegible]
558	MONTANA POWER	1273	2	652	1007y	–2	113.6	6	11.3	10.5	9.1	11.4	2513	[illegible]
559	STAR BANC	1270	19	758	675	9	116.6	16	17.3	16.2	16.7	16.2	9391	[illegible]
560	MEDITRUST	1268	16	741	173	15	80.5	26	46.5	42.2	NA	12.6	1595	[illegible]
561	RUST INTERNATIONAL	1266	–26	530	1683	10	55.6	–30	3.3	5.2	4.7	5.8	1800	[illegible]
562	RELIASTAR FINANCIAL	1263	57	929	1571	5	107.7	31	6.9	5.5	12.5	13.4	10367	[illegible]
563	LIZ CLAIBORNE	1262	–30	494	2163	–2	82.8	–34	3.8	5.7	8.1	8.2	1250	[illegible]
564	GEORGIA GULF	1260	8	697	955	24	122.2	189	12.8	5.5	46.9	NM	508	[illegible]
565	POTLATCH	1260	–7	622	1471	7	49.0	28	3.3	2.8	5.3	5.3	2081	[illegible]
566	FEDERAL PAPER BOARD	1259	12	730	1570	13	72.0	NM	4.6	0.5	7.2	NA	2590	[illegible]
567	CAREMARK INTERNATIONAL	1253	–19	563	2426	36	80.4	3	3.3	4.4	NA	17.4	1300	[illegible]
568	PACIFIC TELECOM	1253	24	790	705	0	81.4	38	11.5	8.4	NA	12.3	1443	[illegible]
569	FIRST SECURITY	1252	–11	608	959	20	140.1	23	14.6	14.3	NA	15.8	12175	[illegible]
570	NEXTEL COMMUNICATIONS	1250	–68	262	89a	59	-113.0	NM	NM	NM	NM	–8.9	2810	[illegible]
571	OWENS-ILLINOIS	1250	–17	580	3567	1	78.3	NM	2.2	NM	NM	19.8	5445	[illegible]
572	IPALCO ENTERPRISES	1241	1	669	686	3	96.2	22	14.0	11.8	8.5	11.6	2091	[illegible]
573	DEAN FOODS	1238	–1	651	2572	12	79.7	25	3.1	2.8	12.4	14.5	1253	[illegible]
574	VARIAN ASSOCIATES	1235	2	681	1630	21	88.4	74	5.4	3.8	17.3	19.7	1000	[illegible]
575	BETZ LABORATORIES	1233	–13	600	708	3	73.2	15	10.3	9.3	18.0	21.2	556	[illegible]
576	BOISE CASCADE	1233	25	806	4140	5	–62.6	NM	NM	NM	NM	–13.9	4458	[illegible]
577	MILLIPORE	1229	2	683	497	12	59.6	22	12.0	11.0	20.2	26.9	528	[illegible]
578	PAYCHEX	1227	5	698	243	18	33.2	40	13.7	11.5	27.1	27.2	148	[illegible]
579	HBO	1223	77	NR	327	30	28.2	50	8.6	7.5	NA	34.1	234	[illegible]
[illegible]	HEALTH MANAGEMENT ASSOCIATES	1223	23	800	452	23	52.1	47	11.5	9.6	16.6	20.6	399	[illegible]
581	REVCO D. S.	1222	58	947	3158	34	43.5	95	1.4	0.9	4.6	6.0	2238	1
582	BOWATER	1220	44	897	1359	0	–4.8	NM	NM	NM	NM	–3.1	2851	[illegible]
583	LAFARGE	1219	–24	553	1563	5	80.6	NM	5.2	0.4	NA	9.7	1651	[illegible]
584	PERKIN-ELMER	1216	–27	538	1033	NA	70.3	NA	6.8	NA	24.0	24.5	842	[illegible]
585	VIKING OFFICE PRODUCTS	1216	30	836	674	36	38.4	54	5.7	5.0	22.0	22.0	263	[illegible]
586	WASHINGTON MUTUAL	1215	–8	633	1316y	12	172.3	–2	13.1	14.9	NA	12.2	18458	[illegible]
587	OHIO CASUALTY	1215	6	710	1559	–7	89.0	2	5.7	5.2	9.3	10.1	3739	[illegible]
588	ETHYL	1214	–44	437	1174	–39	97.8	9	8.3	4.6	16.7	25.5	1030	[illegible]
589	AT&T CAPITAL	1213	3	689	1384	2	100.3	40	7.3	5.3	6.5	10.0	8022	[illegible]
[illegible]	STOP & SHOP	1207	–2	672	3751a	7	79.0	31	2.1	1.7	11.4	32.1	1757	[illegible]
591	RUSSELL	1207	6	717	1098	18	78.8	61	7.2	5.3	11.8	12.7	1121	[illegible]
592	CAPITAL ONE FINANCIAL	1206	NA	NR	656	44	95.3	–14	14.5	24.3	NA	11.0	3092	[illegible]
593	KELLY SERVICES	1205	16	770	2363	21	61.1	37	2.6	2.3	14.6	14.6	623	[illegible]
594	ALLMERICA PROPERTY & CASUALTY	1205	5	707	1991a	1	100.8	–59	5.1	12.6	7.9	8.2	5372	[illegible]
595	HEALTHSOUTH	1202	40	891	1127	96	53.2	292	4.7	2.4	5.9	15.3	1340	[illegible]
[illegible]	FIRST VIRGINIA BANKS	1200	–3	666	588y	0	113.2	–2	19.2	19.8	15.8	15.3	7865	[illegible]
[illegible]	UNION BANK	1200	29	842	1139	1	75.3	–9	6.6	7.4	NA	5.8	16761	[illegible]
[illegible]	COLTEC INDUSTRIES	1197	–14	612	1327	–1	94.0	44	7.1	4.9	35.1	NM	857	[illegible]
[illegible]	U. S. SURGICAL	1194	21	809	919	–11	19.2	NM	2.1	NM	NM	0.7	1104	[illegible]
[illegible]	BAYBANKS	1192	15	771	865y	10	108.4	60	12.5	8.6	NA	14.2	10537	[illegible]

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE [illegible]

JATION			DIVIDENDS			SHARES			EARNINGS PER SHARE					INDUSTRY GROUP
12 MONTH HIGH/LOW $	PRICE AS % OF 52-WEEK VALUE	P/E RATIO		PAYOUT	DIV. TURN.	INSTI. HOLDING	SHRS OUT MIL	TURN-OVER		LAST ANNUAL	12 MO.	EST	ATION	
24/14	470	NM	0.43	DEF	12	50	55	58.0	12	1.32	–0.15	1.61	11.8	Conglomerates
36/30	150	9	3.92	37	7	36	41	42.8	12	3.14	3.35	3.55	2.0	Banks
42/28	249	16	0.00	0	–14	80	45	115.9	12	–1.96	1.81	4.54	10.1	Metals
29/22	188	12	5.09	61	–4	52	52	35.8	12	1.97	2.07	2.05	4.4	Utilities
26/19	97	10	1.94	20	6	75	52	33.9	12	2.69b	2.44	2.61	4.6	Nonbank financial
35/22	114	34	0.00	0	6	76	45	112.5	12	–3.24	0.84	2.63	29.3	Metals
32/21	300	NM	0.63	267	0	81	50	87.5	12	0.26	0.06	0.69	44.9	Fuel
26/22	137	12	6.74	80	7	34	54	52.6	12	1.98	2.00	2.11	2.4	Utilities
45/34	177	11	3.28	36	22	34	30	24.4	12	3.36	3.89	4.29	1.4	Banks
36/29	199	14	8.25	116	4	46	40	47.5	12	2.03	2.28	2.38	2.5	Housing
21/11	131	23	0.00	0	–26	2	83	4.7	12	0.98	0.67	0.88	4.5	Services
36/27	172	11	2.64	29	29	59	37	54.3	12	2.45b	3.08	3.99	2.0	Nonbank financial
27/15	125	15	2.79	42	–28	84	78	105.9	12	1.54	1.06	1.55	7.7	Consumer products
43/24	NEG	10	0.00	0	5	80	42	162.7	12	1.01	2.88	5.86	10.1	Chemicals
47/36	137	26	3.71	95	–4	49	29	39.9	12	1.31	1.68	3.63	11.6	Paper
32/20	142	20	4.03	79	15	79	42	101.6	12	–0.01b	1.52	3.73	12.6	Containers
27/16	271	16	0.23	4	–19	59	72	144.7	12	1.06	1.08	1.34	12.7	Health care
32/21	189	15	4.17	64	29	NA	40	11.0	12	1.49	2.05	NA	NM	Telecommunications
33/22	141	9	4.44	40	–9	57	50	56.9	12	2.38	2.81	3.08	3.6	Banks
47/9	98	NM	0.00	0	–73	56	103	318.2	03	–0.73	–1.84d	–2.34	34.2	Telecommunications
13/10	316	16	0.00	0	–17	56	119	39.7	12	–1.70	0.64	1.35	4.4	Containers
34/28	155	13	6.45	86	7	41	38	43.8	12	2.00	2.46	2.62	1.9	Utilities
33/25	225	14	2.19	32	1	41	40	30.0	05	1.78	2.14d	2.36	4.7	Food
40/31	275	17	0.66	11	5	80	34	80.0	09	1.26	2.22	2.72	5.1	Electrical
54/42	404	19	3.25	63	–10	76	28	44.9	12	1.95b	2.30	2.61	2.7	Chemicals
33/19	147	NM	1.86	DEF	26	85	38	139.6	12	–3.17	–3.08	3.04	30.3	Paper
57/43	555	24	1.13	28	25	91	23	109.0	12	1.75	2.18	3.27	4.6	Electrical
42/29	1002	33	0.88	29	6	62	30	111.9	05	0.94	1.26d	1.56	3.8	Office equipment
40/19	1483	45	0.42	19	65	86	32	271.8	12	0.59	0.85	1.20	0.8	Office equipment
29/18	484	26	0.00	0	20	95	46	78.4	09	0.72	1.04	1.27	0.8	Health care
25/14	168	18	0.00	0	27	64	67	61.9	05	0.77	1.00d	1.31	6.9	Health care
34/20	179	NM	1.80	DEF	46	83	37	89.0	12	–1.84	–0.59	2.65	27.2	Paper
26/16	146	15	1.68	25	–25	33	68	36.4	12	0.10	1.18	1.97	9.1	Housing
38/25	423	17	2.38	41	–22	76	42	71.0	06	0.54	1.66	1.73	1.7	Electrical
33/21	696	39	0.00	0	28	88	41	138.6	06	0.43	0.76	NA	NM	Retailing
23/16	96	8	3.78	30	–5	NA	60	132.8	12	2.74	2.54	2.58	8.1	Nonbank financial
34/27	137	14	4.50	62	11	50	36	45.8	12	2.42	2.47	3.12	13.1	Nonbank financial
19/10	316	12	4.88	60	–4	55	118	60.2	12	0.76	0.83	0.87	2.3	Chemicals
27/20	120	12	1.55	19	4	12	47	9.8	12	1.67	2.14	2.47	2.4	Nonbank financial
28/23	490	15	0.00	0	–3	37	50	35.0	01	1.23	1.58d	1.85	2.2	Food
33/27	195	15	1.59	24	9	49	40	37.9	12	1.19	1.96	2.32	3.4	Consumer products
18/14	502	13	0.00	0	NA	NA	66	NA	12	1.67	1.44	1.96	7.7	Nonbank financial
32/23	288	20	2.27	45	18	37	38	45.9	12	1.18	1.61	1.88	5.9	Services
20/14	97	12	0.82	10	6	89	62	15.2	12	4.08	1.64	2.21	11.3	Nonbank financial
41/25	346	29	0.00	0	36	91	30	154.1	12	0.39	1.40	2.13	3.3	Health care
40/32	163	10	3.74	38	–4	31	34	26.9	12	3.57	3.51	3.74	2.7	Banks
34/26	109	19	4.18	78	32	83	36	13.5	12	2.11	1.80	3.80	5.8	Banks
21/15	NEG	13	0.00	0	–14	84	70	38.1	12	0.94	1.35	1.59	0.6	Conglomerates
29/16	181	NM	0.38	100	21	40	57	258.8	12	–2.48	0.08	0.84	23.8	Health care
65/51	156	11	3.19	35	17	77	19	149.6	12	3.57	5.65	6.11	9.2	Banks

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
			FROM	AGO			12 MONTHS 1994	CHANGE FROM	12 MONTHS 1994	12 MONTHS	ON INVESTED CAPITAL	ON COMMON EQUITY	MONTHS
701	SOUTHWESTERN PUBLIC SERVICE	1192	4	709	828	1	97.3	–9	11.8	13.1	9.7	13.3	1794
702	FINA	1189	8	738	3421	0	102.0	45	3.0	2.1	7.7	9.1	2473
703	DELMARVA POWER & LIGHT	1183	–4	671	991	2	108.3	–3	10.9	11.4	7.9	11.2	2670
704	SIMON PROPERTY GROUP	1180	12	NR	474	9	41.4	27	8.7	7.5	10.5	61.8	2086
705	UAL	1179	–64	307	13950	5	77.0	NM	0.6	NM	NA	NM	11764
706	ALTERA	1178	72	NR	199	42	14.6	–31	7.3	15.1	9.7	9.7	188
707	NATIONAL HEALTH LABORATORIES HLDGS.	1176	4	701	873	15	30.1	–73	3.5	14.8	6.2	19.3	1018
708	FOSTER WHEELER	1173	–22	582	2234	–14	65.4	13	2.9	2.2	NA	14.5	2050
709	BANCORP HAWAII	1172	–12	631	932	3	117.7	–11	12.6	14.6	12.4	12.0	12586
710	BROOKLYN UNION GAS	1166	–5	675	1331	8	88.1	13	6.6	6.4	8.1	10.9	2136
711	QUESTAR	1166	–6	662	670	2	49.4	–42	7.4	12.8	6.8	7.5	1548
712	AMPHENOL	1164	81	NR	693	15	42.4	71	6.1	4.1	12.0	15.9	677
713	LOUISIANA LAND & EXPLORATION	1156	–6	661	802y	–2	–226.9	NM	NM	1.6	NM	–39.4	1478
714	B. F. GOODRICH	1151	9	762	2199	21	65.7	329	3.0	0.8	7.0	7.1	2469
715	CALLAWAY GOLF	1149	–5	680	449	76	78.0	89	17.4	16.2	41.9	41.9	244
716	ASARCO	1146	9	760	2032	17	64.0	NM	3.2	NM	NM	4.2	3304
717	HEILIG-MEYERS	1145	–28	555	1095y	36	66.2	31	6.0	6.3	11.6	13.8	1175
718	LA QUINTA INNS	1145	45	938	362y	33	37.8	95	10.4	7.1	10.3	20.9	840
719	REYNOLDS & REYNOLDS	1142	11	765	825	14	70.7	28	8.6	7.6	16.6	24.3	647
720	AMERICAN PREMIER UNDERWRITERS	1140	–8	656	1843y	5	0.8	NM	0.0	13.8	0.1	0.1	4168
721	TOTAL SYSTEM SERVICES	1139	35	900	188	23	22.5	11	12.0	13.3	19.2	19.2	154
722	ORYX ENERGY	1138	–35	521	1072y	2	–65.0	NM	NM	NM	NM	–15.2	3371
723	INFINITY BROADCASTING	1135	8	776	313	34	33.4	133	10.6	6.1	14.9	NM	566
724	OUTBACK STEAKHOUSE	1118	–5	735	452	46	38.6	53	8.5	8.2	NA	25.0	224
725	WEIS MARKETS	1116	–3	706	1557	8	76.2	5	4.9	5.1	10.0	10.0	893
726	BOSTON EDISON	1116	–8	674	1549	4	125.0	6	8.1	8.0	8.5	11.8	3594
727	TIMKEN	1114	2	739	1930	13	68.5	NM	3.5	NM	8.9	9.5	1859
728	A. H. BELO	1112	5	761	628	15	68.9	55	11.0	8.2	11.1	18.0	914
729	BEVERLY ENTERPRISES	1112	–10	660	2969	3	76.9	33	2.6	2.0	7.7	10.4	2065
730	TRITON ENERGY ††	1109	8	777	32	NA	–27.7	NA	NM	NA	NM	–21.7	615
731	SPIEGEL	1109	–51	428	3016	16	25.1	–48	0.8	1.9	4.1	4.4	2560
732	MANVILLE	1105	3	753	2560	12	65.4	8	2.6	2.7	8.0	4.7	3797
733	NEW PLAN REALTY TRUST	1105	–3	721	109a	36	55.5	24	50.9	56.0	9.1	9.8	653
734	BANKERS LIFE HOLDING	1105	6	691	1445a	–1	138.7	–3	9.6	9.8	22.0	28.2	3980
735	CYPRESS SEMICONDUCTOR	1104	67	NR	406	33	50.5	528	12.4	2.6	11.8	14.3	556
736	TALBOTS	1104	4	759	834	18	51.2	64	6.1	4.4	12.8	13.5	543
737	FIRST COLONY	1103	–14	644	1470a	–2	152.8	–20	10.4	12.7	13.3	10.9	9092
738	MCN	1099	–3	722	1546	4	80.5	8	5.2	5.0	9.1	15.2	2245
739	FIRST EMPIRE STATE	1097	17	835	789a	–1	112.0	16	14.2	12.1	19.8	16.7	10529
740	CHICAGO & NORTH WESTERN HOLDINGS	1096	–9	684	1130	8	84.0	31	7.4	6.1	10.7	31.5	2219
741	AMERICA ONLINE	1094	86	NR	195	194	–33.8	NM	NM	3.0	NA	–33.2	167
742	OLIN	1094	17	830	2658	10	90.8	NM	3.4	NM	9.8	10.8	2030
743	EL PASO NATURAL GAS	1093	–23	601	870	–4	89.6	–2	10.3	10.1	9.2	12.6	2332
744	ALLEGHANY	1089	13	816	1827	8	68.4	–15	3.7	4.8	NA	11.4	3588
745	HARSCO	1089	–3	733	1466y	1	86.6	7	5.9	5.6	11.2	15.3	1315
746	RIVERWOOD INTERNATIONAL	1089	–5	715	1283	15	10.2	217	0.8	0.3	4.8	2.0	2142
747	STEWART & STEVENSON SERVICES	1089	–34	546	1095a	14	66.0	24	6.0	5.5	14.7	16.4	876
748	CENTOCOR	1088	132	NR	67	–11	–126.7	NM	NM	NM	NM	NM	306
749	MARK IV INDUSTRIES	1088	38	937	1438	20	61.9	28	4.3	4.0	7.5	13.1	1804
750	BERGEN BRUNSWIG	1082	54	989	7633y	NA	59.3	NA	0.8	NA	9.4	12.8	2051

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PA

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12 MONTH HIGH $	LOW $	P-E RATIO	$	PAYOUT	TOTAL RETURN	HOLDING	SHRS OUT MIL	TURN-OVER		ACTUAL $	ACTUAL $	1995 EST $	VARI-ATION	
29/24	172	12	7.55	92	11	27	41	41.2	08	2.43	2.38	2.39	2.5	Utilities
80/64	106	12	5.25	61	15	3	16	1.9	12	4.51	6.54	NA	NM	Fuel
22/17	134	12	7.75	92	3	23	60	44.8	12	1.76	1.67	1.72	4.1	Utilities
28/23	1455	34	7.79	268	2	57	48	60.3	12	0.80	0.71	1.20	NM	Housing
135/83	NEG	NM	0.00	0	34	89	12	250.2	12	–2.64	0.76	8.65	26.7	Transportation
57/22	786	84	0.00	0	70	97	21	933.3	12	1.01	0.68	2.34	3.4	Electrical
16/11	755	39	0.00	0	4	54	85	92.0	12	1.26	0.36	0.78	3.8	Health care
45/27	261	18	2.26	40	–20	68	36	102.9	12	1.62	1.83	2.09	2.4	Services
35/24	120	10	3.71	38	–7	61	42	41.0	12	3.09	2.75	2.98	7.0	Banks
27/22	144	13	5.67	75	–1	27	48	22.5	09	1.73	1.85	1.89	1.6	Utilities
35/26	178	24	3.95	94	–2	78	40	42.7	12	2.10	1.21	2.21	4.1	Utilities
25/14	436	27	0.00	0	58	49	47	64.5	12	0.58	0.91	1.19	1.7	Electrical
47/31	201	NM	0.69	DEF	–5	87	33	93.6	12	0.43	–6.80	0.47	68.1	Fuel
48/40	142	20	4.93	98	13	88	26	72.9	12	0.28	2.24	2.85	10.9	Chemicals
43/29	616	16	1.19	19	–5	73	34	374.2	12	1.20	2.13	2.59	3.1	Leisure
35/21	75	18	1.47	26	10	56	42	119.6	12	–1.70	1.53	3.76	31.6	Metals
36/23	240	17	1.02	18	–28	81	48	105.4	02	1.12	1.37d	1.66	2.4	Consumer products
26/17	633	32	0.40	13	44	66	46	54.8	12	0.41	0.78	0.99	2.0	Leisure
28/20	393	18	1.45	27	16	74	42	56.3	09	1.20	1.51	1.86	2.2	Office equipment
30/22	70	NM	4.06	5000	–2	76	46	40.0	12	5.03	0.02	1.86	7.5	Nonbank financial
20/10	973	50	0.51	26	35	3	65	3.6	12	0.32	0.35	0.42	4.8	Office equipment
18/10	263	NM	0.00	0	–36	59	99	84.1	12	–1.01	–0.68	0.08	750.0	Fuel
38/20	NEG	48	0.00	0	10	84	32	143.2	12	0.35	0.74d	1.10	17.3	Publishing/TV
32/23	726	30	0.00	0	–6	60	43	226.5	12	0.61	0.88	1.12	3.6	Leisure
27/24	147	15	2.97	43	0	47	44	6.0	12	1.66	1.75	NA	NM	Food
29/22	120	10	7.43	76	–3	36	46	55.3	12	2.28	2.41	2.49	1.2	Utilities
39/31	155	16	3.01	49	4	72	31	45.7	12	–0.57	2.21	3.05	13.4	Manufacturing
61/43	291	17	1.06	18	9	50	20	43.9	12	2.20	3.41	3.65	3.3	Publishing/TV
16/12	168	16	0.00	0	–14	70	86	125.5	12	0.45	0.79	0.94	2.1	Health care
38/25	466	NM	0.00	0	8	75	36	92.1	12	–0.25	–0.18d	–0.26	111.5	Fuel
27/9	193	45	1.95	87	–50	12	108	58.9	12	0.47	0.23	0.75	18.7	Retailing
10/7	128	27	0.00	0	3	14	123	7.6	12	0.31	0.33	NA	NM	Paper
24/19	195	20	6.40	126	–4	13	53	31.2	07	0.89	1.06	NA	NM	Housing
26/17	233	8	2.87	24	–1	26	53	52.9	12	2.63	2.49	2.71	3.3	Nonbank financial
29/14	313	23	0.00	0	55	80	39	179.7	12	0.21	1.23	1.66	7.2	Electrical
37/27	292	20	0.63	13	5	36	35	50.4	01	1.42	1.55d	1.83	1.6	Retailing
26/19	116	11	1.43	15	–13	57	49	37.2	12	4.12	2.10	2.38	3.8	Nonbank financial
20/16	215	14	4.84	68	0	46	60	33.2	12	1.24	1.31	1.51	6.6	Utilities
5/135	161	10	1.45	15	24	47	7	14.0	12	13.87	16.35	17.23	3.7	Banks
28/18	411	13	0.00	0	–10	69	44	54.8	12	1.44	1.86	2.25	7.1	Transportation
72/25	1077	NM	0.00	0	70	NM	15	932.8	06	0.23	0.39	0.80	5.0	Office equipment
50/46	159	14	4.72	66	8	65	22	102.7	12	–4.52	3.65	5.30	7.0	Chemicals
41/28	154	13	3.94	49	–17	74	36	61.2	12	2.46	2.45	2.97	4.4	Utilities
0/137	117	16	0.00	0	10	56	7	8.7	12	11.91	10.00	11 00	NM	Nonbank financial
46/38	192	13	3.42	43	0	58	25	35.9	12	3.23	3.45	3.55	3.9	Manufacturing
19/14	209	NM	0.96	100	–4	18	66	12.4	12	0.05	0.16	1.24	5.6	Containers
54/28	270	16	0.85	14	–33	72	33	220.4	01	1.73	2.06d	2.40	2.5	Manufacturing
20/9	NM	NM	0.00	0	77	45	57	285.5	12	–1.79	–2.55	–0.22	145.5	Health care
23/16	230	14	0.55	8	9	49	54	54.7	02	1.09b	1.39d	1.61	8.1	Manufacturing
28/13	234	19	1.76	33	47	53	40	73.7	09	0.75	1.45	1.65	3.6	Health care

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	COMPANY	MARKET VALUE $MIL	CHANGE FROM 1994 %	YEAR AGO RANK	SALES 12 MONTHS 1994 $MIL	CHANGE FROM 1993 %	PROFITS 12 MONTHS 1994 $MIL	CHANGE FROM 1993 %	MARGIN % 12 MONTHS 1994 %	MARGIN % 12 MONTHS 1993 %	RETURN ON INVESTED CAPITAL %	RETURN ON COMMON EQUITY %	ASSETS 12 MONTHS 1994 $MIL
751	USG	1082	–5	723	2290	NA	–92.0	NA	NM	NA	NM	NM	2266
752	SECURITY CAPITAL INDUSTRIAL TRUST	1082	NA	NR	72	589	25.1	469	35.0	42.4	NA	4.7	1195
753	HEALTHCARE COMPARE	1079	27	895	187	18	50.7	32	27.2	24.4	27.4	25.4	215
754	NAVISTAR INTERNATIONAL	1079	–40	506	5305a	13	102.0	NM	1.9	NM	10.6	14.0	4794
755	NEW WORLD COMMUNICATIONS GROUP	1076	NA	NR	369a	NA	–42.6	NA	NM	NA	NM	–10.9	1676
756	HANNAFORD BROTHERS	1076	7	789	2292y	12	62.3	14	2.7	2.7	NA	14.1	878
757	CONTINENTAL CORP.	1075	–23	609	5137y	–1	–642.4	NM	NM	3.1	NM	–46.7	15881
758	ITEL	1074	17	847	1751a	27	12.7	30	0.7	0.7	NA	2.1	1320
759	FHP INTERNATIONAL	1073	15	834	3214	42	79.9	50	2.5	2.3	NA	5.9	2341
760	DIEBOLD	1073	–4	734	760	22	63.5	31	8.4	7.8	13.9	14.0	662
761	LAM RESEARCH	1072	27	904	611	65	55.2	94	9.0	7.6	14.4	16.8	545
762	CENTRAL FIDELITY BANKS	1070	–7	713	689a	4	112.0	13	16.3	15.0	10.3	12.9	10054
763	TOSCO	1070	–1	810	6366	79	83.8	4	1.3	2.3	10.3	13.8	1800
764	A. SCHULMAN	1070	4	779	839	24	48.0	20	5.7	5.9	12.5	13.4	564
765	R. P. SCHERER	1069	19	865	507	19	39.0	24	7.7	7.4	13.9	16.0	646
766	PROVIDENT LIFE & ACCIDENT	1066	–17	643	2762y	–6	135.3	NM	4.9	NM	9.1	10.8	17150
767	KU ENERGY	1054	6	804	637	5	78.3	–5	12.3	13.6	9.1	12.3	1669
768	VANGUARD CELLULAR SYSTEMS	1054	33	932	168	54	–13.9	NM	NM	NM	NM	–35.6	432
769	EQUITABLE OF IOWA	1053	–4	785	652	14	98.3	13	15.1	15.2	17.9	17.0	7966
770	PERRIGO	1053	–52	438	679	7	52.4	0	7.7	8.3	14.1	16.9	507
771	TEKTRONIX	1051	30	926	1372	8	73.9	NM	5.4	NM	NA	13.9	1037
772	UNITED ASSET MANAGEMENT	1050	–1	755	492	9	59.0	11	12.0	11.8	NA	15.1	916
773	CORDIS	1049	42	NR	387	33	44.2	26	11.4	12.1	19.0	19.1	311
774	RPM	1044	–4	744	911	15	57.1	23	6.3	5.9	8.9	17.1	966
775	TIDEWATER	1044	–11	692	526	2	42.7	28	8.1	6.5	8.1	7.4	927
776	LEGENT	1043	21	887	509	16	55.0	–3	10.8	12.9	12.7	12.7	709
777	PITTSTON SERVICES GROUP	1040	–9	726	1872	19	79.8	69	4.3	3.0	17.3	16.6	941
778	ELECTRONIC ARTS	1035	–16	665	484	22	53.6	28	11.1	10.6	27.1	27.7	350
779	ATLANTIC ENERGY	1033	5	742	913	5	93.3	–17	10.2	13.0	7.2	8.7	2577
780	COMMERCE BANCSHARES	1032	1	783	588	8	96.1	11	16.4	16.0	NA	13.2	8036
781	PORTLAND GENERAL	1029	17	873	959	1	103.9	3	10.8	10.7	8.1	11.0	3561
782	FISERV	1028	33	945	564	24	37.7	23	6.7	6.8	8.8	11.1	1418
783	ENSERCH EXPLORATION	1025	33	NR	177	–4	26.4	NM	14.9	NM	5.7	4.3	1144
784	BANK SOUTH	1025	18	939	486a	15	89.5	37	18.4	15.5	17.7	13.6	6922
785	TECUMSEH PRODUCTS	1023	–9	705	1533	17	120.3	48	7.8	6.2	15.7	15.3	1290
786	NORDSON	1023	–2	763	525	13	47.8	14	9.1	9.0	22.0	22.6	382
787	LANCASTER COLONY	1022	1	791	771	14	66.6	28	8.6	7.8	24.9	27.6	376
788	BRODERBUND SOFTWARE	1022	164	NR	132	38	16.4	10	12.4	15.6	17.6	17.6	127
789	CHRIS-CRAFT INDUSTRIES	1020	1	796	481	9	64.7	–57	13.5	33.9	5.6	5.0	2241
[illegible]	NATIONAL FUEL GAS	1018	–10	718	1103	6	80.5	4	7.3	7.4	8.9	10.3	2042
791	COMPASS BANCSHARES	1017	17	888	638a	9	99.7	11	15.6	15.4	NA	16.6	9123
792	FLEETWOOD ENTERPRISES	1007	–1	780	2739a	30	85.7	46	3.1	2.8	10.4	14.7	1290
793	CIPSCO	1006	4	815	845	0	87.4	–2	10.4	10.6	9.1	12.9	1767
794	BRIGGS & STRATTON	1005	–18	663	1353	14	112.6	34	8.3	7.1	24.4	27.6	767
795	WEST ONE BANCORP	1004	9	843	666	13	103.2	24	15.5	14.1	13.3	14.4	8793
796	NATIONAL GYPSUM	1003	19	903	630	NA	83.0	NA	13.2	NA	25.4	22.9	597
797	PETSMART	1003	21	912	520a	67	3.1	1	0.6	1.0	NM	1.5	352
798	CIRRUS LOGIC	1002	1	720	786	62	57.1	124	7.3	5.2	13.6	14.5	616
799	GLENAYRE TECHNOLOGIES	1002	66	NR	172	26	33.1	40	19.2	17.4	14.2	14.2	285
[illegible]	ALEXANDER & BALDWIN	1001	–15	690	1208y	23	74.6	11	6.2	6.8	7.5	11.8	1962

ALPHABETICAL INDEX OF COMPANIES BEGINS ON P.

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12 MONTH HIGH LOW $	PRICE AS MULT OF BOOK VALUE	P/E RATIO	YIELD %	PAYOUT %	TOTAL RETURN %	INSTITUTIONAL HOLDING %	SHRS OUT MIL	TURNOVER %	FY	1994 ACTUAL $	1995 ACTUAL $	1995 EST $	VARIATION	
36/17	3279	NM	0.00	0	–21	55	45	106.5	12	14.32	–2.14	3.51	3.7	Housing
18/14	204	29	5.20	153	NA	23	65	12.0	12	0.47	0.57	NA	NM	Housing
37/16	541	22	0.00	0	31	69	34	363.3	12	1.08	1.45	1.74	1.7	Nonbank financial
26/12	188	15	0.00	0	–40	46	74	69.9	10	–8.63	0.99	1.57	14.7	Automotive
17/8	263	30	0.00	0	NA	17	68	144.6	12	–5.41	0.52d	0.80	NM	Publishing/TV
27/20	244	17	1.48	25	7	37	42	25.7	12	1.33	1.50	1.70	0.6	Food
26/12	78	NM	0.00	0	–22	67	55	141.0	12	2.83	–11.60	1.18	13.6	Nonbank financial
37/23	180	23	0.00	0	25	61	31	54.2	12	0.43	1.51d	1.46	1.4	Conglomerates
31/20	95	16	0.00	0	–5	82	40	183.0	06	1.33	1.71	1.83	1.6	Health care
47/33	236	17	2.71	46	–1	78	30	78.0	12	1.60	2.09	2.40	1.7	Office equipment
47/23	327	26	0.00	0	11	97	27	498.3	06	0.79	1.55	2.73	2.9	Manufacturing
35/24	162	13	4.11	52	–4	36	39	51.1	12	2.66	2.17	2.63	3.4	Banks
34/27	191	13	2.22	29	–12	76	37	105.2	12	2.33b	2.24	3.18	9.1	Fuel
30/21	299	24	1.19	29	5	66	38	61.0	08	1.04	1.19	1.50	3.3	Chemicals
48/32	438	26	0.00	0	19	61	23	55.5	03	1.27	1.79d	2.21	2.7	Health care
30/22	94	9	3.06	27	–14	48	45	16.3	12	–2.03	2.71	3.46	8.4	Nonbank financial
29/25	171	14	6.03	84	12	21	38	27.8	12	2.11	2.01	2.12	2.8	Utilities
29/18	2688	NM	0.00	0	26	61	41	100.7	12	–0.40	–0.36	0.31	54.8	Telecommunications
39/26	182	11	1.44	15	–3	54	32	29.4	12	2.95	3.11	3.22	1.6	Nonbank financial
30/11	339	20	0.00	0	–52	45	76	232.4	06	0.58	0.71	0.74	5.4	Health care
41/26	198	14	1.75	24	31	74	31	116.1	05	2.00	2.52d	2.98	4.4	Electrical
40/30	270	19	2.80	52	–3	61	28	63.4	12	1.85	2.00	2.31	3.0	Nonbank financial
69/36	453	29	0.00	0	41	88	16	427.1	06	2.00	2.27	3.12	3.5	Health care
20/16	312	18	3.05	53	–1	38	57	44.1	05	0.93	1.05d	1.19	3.4	Housing
25/17	180	23	2.04	47	–10	80	53	79.8	03	0.67	0.86d	1.14	7.9	Fuel
37/19	242	20	0.00	0	15	63	36	323.0	09	1.72	1.44	2.33	2.6	Office equipment
31/21	239	12	0.80	9	–9	80	42	71.1	12	1.28	2.13d	2.38	2.5	Transportation
30/13	535	22	0.00	0	–17	75	48	649.3	03	0.90	0.98d	1.15	5.2	Office equipment
22/16	118	13	8.11	109	1	27	54	44.2	12	1.80	1.41	1.75	2.9	Utilities
32/27	142	11	2.11	23	3	35	34	25.3	12	2.61	2.85	3.03	1.3	Banks
21/16	122	11	5.89	64	17	42	51	49.7	12	1.88	1.87	1.87	5.3	Utilities
26/19	303	28	0.00	0	31	82	39	89.7	12	0.80	0.95	1.14	0.9	Office equipment
11/6	166	40	0.00	0	33	NA	103	0.3	12	–0.04	0.25	NA	NM	Fuel
21/16	174	13	2.77	35	12	24	55	86.2	12	1.57	1.47	1.54	7.1	Banks
56/40	130	9	2.89	25	–6	57	22	57.6	12	3.72	5.50	5.53	3.1	Housing
63/52	483	23	1.15	26	1	26	18	21.9	10	2.13	2.45	3.05	3.0	Manufacturing
39/28	423	17	1.64	28	4	57	30	71.9	06	1.52	1.97	2.31	2.6	Food
56/16	1096	94	0.00	0	158	81	20	745.5	08	0.68	0.55	1.44	4.2	Office equipment
42/32	79	16	0.00	0	–2	43	29	34.4	12	5.26	2.24	1.58	5.1	Publishing/TV
33/25	131	12	5.80	71	–6	31	37	25.8	09	2.15	2.23	2.18	6.0	Utilities
28/21	169	10	3.35	34	21	32	37	42.2	12	2.39	2.68	3.05	3.3	Banks
27/18	172	11	2.56	28	0	69	46	88.9	04	1.46	1.99d	2.25	6.7	Leisure
30/25	155	12	6.78	81	11	29	34	29.1	12	2.51	2.46	2.42	2.9	Utilities
45/31	246	10	2.88	28	–16	73	29	91.5	06	2.43	3.55	3.71	4.0	Manufacturing
32/24	140	9	3.22	31	5	61	37	98.4	12	2.50	2.88	2.96	2.4	Banks
53/29	277	13	0.00	0	17	65	20	268.2	12	–0.87	3.85	5.25	2.9	Housing
39/22	501	87	0.00	0	10	63	29	243.9	01	0.20	0.40d	0.84	4.8	Retailing
42/21	255	17	0.00	0	–17	77	30	787.4	03	1.39	1.93d	2.57	12.5	Electrical
42/22	431	32	0.00	0	60	72	25	208.4	12	1.08	1.27	1.53	5.2	Electrical
28/21	158	13	4.05	54	–11	54	46	47.4	12	1.45	1.62	1.69	3.0	Transportation

TES TO TABLES APPEAR ON PAGE 102

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
									12 MONTHS	12 MONTHS	ON INVESTED CAPITAL	ON COMMON EQUITY	12 MONTHS
801	SOLECTRON	1000	-21	648	1642	61	61.8	61	3.8	3.8	13.9	17.6	827
802	FLEET MORTGAGE GROUP	997	23	922	500a	-13	55.1	25	11.0	7.6	9.3	13.5	2209
803	CLEAR CHANNEL COMMUNICATIONS	995	46	NR	201y	48	22.0	141	11.0	6.7	10.3	19.0	408
804	ALC COMMUNICATIONS	993	-9	749	568	30	64.3	62	11.3	9.1	37.9	67.0	270
805	BANPONCE	993	-7	757	1008y	14	124.7	21	12.4	11.7	NA	13.6	12445
806	HEALTH CARE & RETIREMENT	992	19	907	615	10	42.0	23	6.8	6.1	9.7	12.3	677
807	ULTRAMAR	991	-13	719	2475	2	61.0	-29	2.5	3.5	8.5	10.9	1711
808	SOUTHERN NATIONAL	988	15	NR	646	6	109.6	NM	17.0	1.4	NA	16.6	8720
809	SUN HEALTHCARE GROUP	987	224	NR	603y	214	28.4	209	4.7	4.8	3.8	6.7	1100
810	CADENCE DESIGN SYSTEMS	980	83	NR	429	16	36.6	NM	8.5	NM	NA	20.8	361
811	BALL	978	32	972	2595	7	73.0	NM	2.8	NM	10.2	11.6	1762
812	TJX	978	-50	476	3771a	5	101.6	-19	2.7	3.5	13.8	19.0	1638
813	NINE WEST GROUP	973	-14	729	652	18	63.9	30	9.8	8.9	24.7	29.4	303
814	MODINE MFG.	973	21	927	864	39	60.0	44	6.9	6.7	17.8	20.4	554
815	PETRIE STORES	972	-24	647	437a	2	-10.2	NM	NM	1.5	NM	-1.0	1708
816	MAXIM INTEGRATED PRODUCTS	972	29	970	193	51	30.3	51	15.7	15.7	21.9	21.9	199
817	AMERICAN WATER WORKS	963	0	817	770	7	78.7	4	10.2	10.5	7.2	10.4	3207
818	EQUITABLE RESOURCES	958	-23	654	1397	28	60.7	-17	4.3	6.7	8.5	8.2	2014
819	MERCANTILE BANKSHARES	958	11	884	457a	2	86.5	7	18.9	18.1	13.0	13.1	5626
820	LEAR SEATING	958	NA	NR	3147	61	59.8	NM	1.9	NM	14.1	31.2	1246
821	GENETICS INSTITUTE	956	-19	687	131	NA	-18.9	NA	NM	NA	-4.7	-4.7	422
822	WEINGARTEN REALTY	956	-6	788	121	17	42.5	17	35.2	35.1	8.3	10.3	668
823	ALEXANDER & ALEXANDER SERVICES	955	8	905	1324	-1	-107.2	NM	NM	1.8	NM	-28.3	2820
824	GENZYME	953	38	NR	295a	12	-15.5	NM	NM	16.9	NM	-4.2	604
825	SAFETY-KLEEN	953	6	860	791	-1	50.1	NM	6.3	NM	NM	13.0	1016
826	STORAGE TECHNOLOGY	952	-37	591	1625	16	41.4	NM	2.6	NM	5.2	2.8	1842
827	JOSTENS	950	17	921	802	-4	-19.8	NM	NM	NM	NM	-7.7	532
828	HAWAIIAN ELECTRIC INDUSTRIES	946	3	848	1189	4	80.2	18	6.7	6.0	5.6	10.9	5174
829	IDAHO POWER	945	-7	781	544	1	74.9	-11	13.8	15.6	7.6	10.4	2166
830	FORE SYSTEMS	944	NA	NR	58	NA	6.8	NA	11.7	NA	13.8	13.8	68
831	ALBEMARLE	941	0	NR	1081	20	50.3	217	4.7	1.8	7.2	9.4	1163
832	COLEMAN	941	29	982	752y	31	33.5	-4	4.5	6.1	9.5	12.8	630
833	ROUSE	940	10	889	671y	4	6.6	NM	1.0	NM	3.4	-8.0	2898
834	ENSERCH	937	-9	772	1857	7	81.7	NM	4.4	NM	NA	11.0	2843
835	COMDISCO	936	16	928	2086y	-2	55.0	-39	2.6	4.3	8.5	7.2	4807
836	STANDARD FEDERAL BANK	935	7	875	830	8	119.0	3	14.3	15.0	NA	15.1	11788
837	MID ATLANTIC MEDICAL SERVICES	934	19	941	750	16	54.5	114	7.3	3.9	41.4	42.7	249
838	OGDEN	932	-6	805	2110	3	67.8	9	3.2	3.0	5.5	13.6	3410
839	HON INDUSTRIES	931	-1	824	846	8	54.4	22	6.4	5.7	23.2	29.0	359
840	CLARK EQUIPMENT	931	-12	756	947	37	62.8	114	6.6	4.3	12.5	13.9	1194
841	FEDERAL SIGNAL	930	-1	833	677	20	46.8	18	6.9	7.0	20.8	22.0	522
842	SPELLING ENTERTAINMENT GROUP	929	29	NR	399a	65	24.2	38	6.1	7.3	3.8	4.6	950
843	FINOVA GROUP	927	58	NR	419a	66	63.2	75	15.1	14.3	3.5	9.6	5834
844	WPL HOLDINGS	927	5	869	816	6	68.6	3	8.4	8.6	NA	10.9	1806
845	DENTSPLY INTERNATIONAL	926	-20	794	525	4	54.1	115	10.3	5.0	NA	19.3	475
846	LONGVIEW FIBRE	920	-10	782	852	22	48.2	30	5.7	5.3	8.2	11.9	1022
847	T. ROWE PRICE ASSOCIATES	920	1	851	382y	23	61.2	25	16.0	15.8	29.3	28.4	305
848	VALHI	920	34	NR	833	7	19.7	NM	2.4	NM	7.6	9.1	786
849	CBI INDUSTRIES	919	-27	650	1891y	13	51.5	NM	2.7	NM	NM	6.8	2009
850	GENERAL NUTRITION	917	-17	737	624a	21	40.8	93	6.5	4.1	11.1	22.2	589

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PA

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12 MONTH HIGH/ LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	[illegible]	PAYOUT	[illegible]	[illegible]	OUT MIL	[illegible] OVER	FY	1993 ACTUAL $	[illegible] ACTUAL $	ANALYSTS ESTIMATES 1995 EST $	VARIATION	
33/22	285	20	0.00	0	–22	92	41	146.8	08	0.75b	1.18	1.56	2.6	Electrical
21/12	212	16	2.98	47	27	NA	50	40.5	12	0.63	1.28	1.93	6.7	Nonbank financial
58/32	859	45	0.00	0	42	51	18	48.5	12	0.59	1.27	1.47	13.6	Publishing/TV
38/26	1035	18	0.00	0	–11	97	34	108.7	12	1.07	1.68	2.03	1.0	Telecommunications
33/27	112	8	3.31	27	–4	21	33	24.4	12	3.16	3.67	NA	NM	Banks
31/24	289	25	0.00	0	19	85	32	90.1	12	1.03	1.26	1.51	0.7	Health care
30/22	177	17	4.27	71	–10	91	39	62.7	12	2.23	1.56	2.76	7.2	Fuel
22/17	157	10	3.58	35	16	14	44	25.2	12	2.13b	2.27	2.51	2.8	Banks
28/17	234	22	0.00	0	16	52	39	100.7	12	0.92	1.19	1.42	4.2	Health care
26/12	556	31	0.00	0	99	67	38	206.7	12	–0.02	0.84	1.43	7.7	Office equipment
34/24	162	14	1.83	26	32	70	30	77.5	12	–1.24	2.35	2.58	6.2	Containers
29/13	196	13	4.15	52	–48	89	72	132.1	01	1.62	1.08d	1.30	9.2	Retailing
35/24	448	15	0.00	0	–14	62	35	90.3	12	1.47	1.85	2.14	1.9	Consumer products
33/24	331	16	1.59	25	22	36	30	38.5	03	1.41	2.11d	2.42	2.5	Automotive
28/21	99	90	0.96	87	–23	27	47	51.4	01	–1.04	0.23d	0.75	NM	Retailing
36/22	701	44	0.00	0	25	87	30	210.5	06	0.58	0.76	1.10	1.8	Electrical
32/25	134	13	4.34	55	–1	37	33	20.6	12	2.29	2.34	2.47	1.6	Utilities
37/26	129	16	4.25	67	–20	65	35	44.2	12	2.27	1.76	2.06	12.6	Utilities
23/18	139	11	3.83	43	15	43	46	38.2	12	1.80	1.88	2.09	2.9	Banks
22/16	499	17	0.00	0	NA	20	46	NA	12	–0.06	1.26	1.75	2.3	Automotive
47/32	239	NM	0.00	0	–20	24	27	40.3	12	–0.81	–0.71	–0.85	23.5	Health care
41/33	224	22	6.29	141	–1	47	26	46.8	12	1.50	1.62	1.85	3.8	Housing
23/14	221	NM	0.46	DEF	8	74	44	59.7	12	0.40	–2.79	1.01	25.7	Nonbank financial
42/24	260	27	0.00	0	38	72	25	278.8	12	–0.25	1.41d	1.85	7.0	Health care
18/13	247	19	2.18	41	8	58	58	72.1	12	–1.76	0.87	0.99	4.0	Services
42/21	92	33	0.00	0	–38	68	44	385.7	12	–2.98	0.66	2.03	17.7	Office equipment
21/15	367	NM	4.22	DEF	22	72	45	45.4	06	–0.18	–0.58	1.04	3.8	Manufacturing
35/30	141	13	7.15	91	7	34	29	19.7	12	2.38	2.60	2.76	6.2	Utilities
28/22	145	14	7.40	103	–2	24	38	39.5	12	2.14	1.80	1.99	4.0	Utilities
39/10	1917	NM	0.00	0	NA	13	26	NA	03	0.09	0.25d	0.45	4.4	Office equipment
18/13	172	18	1.40	25	9	40	66	63.0	12	0.37	0.79	0.85	7.1	Chemicals
36/25	361	28	0.00	0	30	19	27	24.4	12	1.30	1.26	2.00	1.5	Leisure
20/17	1164	NM	3.44	DEF	14	69	48	37.7	12	–0.27	–0.14	1.89	4.2	Housing
17/12	147	13	1.43	19	–8	77	67	64.7	12	–0.41	1.05	0.62	30.6	Utilities
26/18	146	22	1.41	31	23	54	37	40.5	09	1.97	1.16	2.56	2.3	Office equipment
30/22	119	8	2.29	18	9	75	31	84.8	12	3.60	3.70	3.73	8.0	Nonbank financial
30/17	732	18	0.00	0	15	75	46	490.1	12	0.57	1.15	1.43	3.5	Services
24/18	187	14	5.85	81	–1	55	44	53.0	12	1.43	1.55	1.75	2.3	Conglomerates
34/23	497	17	1.60	28	2	28	31	19.4	12	1.39	1.74	NA	NM	Office equipment
71/51	206	15	0.00	0	–12	81	17	135.4	12	2.41	3.61	7.10	18.7	Manufacturing
21/17	438	20	2.44	49	2	54	45	33.5	12	0.86	1.02	1.21	3.3	Manufacturing
12/8	179	27	0.00	0	–4	12	87	17.3	12	0.42	0.40d	0.50	28.0	Leisure
39/29	120	11	2.39	27	17	76	28	61.7	12	1.80	2.94	3.52	1.1	Nonbank financial
31/26	155	14	6.44	91	11	18	31	20.9	12	2.11	2.13	2.33	2.1	Utilities
45/28	329	17	0.23	4	–20	70	28	142.1	12	1.14	1.95	2.28	1.3	Health care
21/15	228	28	2.93	81	–7	48	52	43.2	10	0.78	0.64	1.38	11.6	Containers
38/25	428	16	2.00	32	4	52	29	99.1	12	1.60	2.00	2.29	3.5	Nonbank financial
8/5	426	47	1.00	47	40	3	115	2.5	12	–0.56	0.17	NA	NM	Conglomerates
36/20	137	20	1.99	40	–27	71	38	72.7	12	–1.07	1.20	1.56	7.1	Chemicals
31/16	499	22	0.00	0	–18	59	38	223.5	01	0.77	1.07d	1.43	3.5	Food

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
		$ Mil.	[illegible]	YEAR AGO RANK	12 MONTHS 1994 $ Mil.	CHANGE FROM 1993 %	12 MONTHS 1994 $ Mil.	CHANGE FROM 1993 %	12 MONTHS 1994 %	12 MONTHS 1994 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	12 MONTHS 1994 $ Mil.
851	BEST BUY	917	-20	708	4326	78	51.0	64	1.2	1.3	8.1	14.7	2009
852	PEOPLES ENERGY	916	-12	769	1207	-4	60.5	-26	5.0	6.5	7.4	9.4	1863
853	CORAM HEALTHCARE	913	NA	NR	451	-3	-128.1	NM	NM	6.2	NA	-39.8	559
854	MORRISON RESTAURANTS	911	-1	849	1115y	-4	61.2	49	5.5	3.5	28.1	28.3	433
855	CRANE	907	7	893	1653	26	55.9	14	3.4	3.7	9.7	17.6	1047
856	ROLLINS	905	-14	766	605	5	49.6	11	8.2	7.7	26.2	26.2	295
857	CROMPTON & KNOWLES	900	-24	685	590	6	50.9	-2	8.6	9.3	18.9	21.0	429
858	WESCO FINANCIAL	897	0	863	98a	-19	24.3	NM	24.7	1.2	3.6	3.6	969
859	FIRST AMERICAN	897	10	915	557y	7	90.7	-11	16.3	19.6	14.5	15.2	7757
860	BOB EVANS FARMS	896	-4	840	736a	7	51.3	12	7.0	6.7	13.8	13.8	435
861	WELLMAN	896	30	NR	936	11	64.8	60	6.9	4.8	9.0	11.6	1042
862	QUORUM HEALTH GROUP	895	NA	NR	769	74	47.4	108	6.2	5.2	11.3	14.8	654
863	NEVADA POWER	890	-1	866	764	17	81.9	11	10.7	11.3	7.8	11.2	1898
864	CONSOLIDATED STORES	889	-2	853	1279	21	55.2	28	4.3	4.1	15.0	19.9	613
865	FOURTH FINANCIAL	889	15	998	581y	10	83.1	25	14.3	12.6	9.3	15.3	7729
866	WILMINGTON TRUST	889	0	854	399a	3	84.6	2	21.2	21.4	24.8	20.4	4742
867	BECKMAN INSTRUMENTS	888	19	951	889	1	47.3	NM	5.3	NM	12.9	14.9	846
868	GATX	888	9	919	1155y	6	91.5	26	7.9	6.7	7.8	12.2	3651
869	RAYONIER	887	-10	808	1070	14	70.0	34	6.5	5.6	10.2	10.9	1511
870	FASTENAL	887	34	NR	162	47	18.7	57	11.5	10.8	30.0	30.0	74
871	BARNES & NOBLE	886	28	NR	1514a	20	13.4	212	0.9	0.3	5.2	4.2	972
872	GARTNER GROUP	884	110	NR	185	40	18.0	88	9.8	7.3	31.4	32.6	221
873	U. S. SHOE	881	38	NR	2583a	-2	32.7	NM	1.3	NM	7.1	6.8	1124
874	CASCADE COMMUNICATIONS	880	NA	NR	50	619	9.3	NM	18.5	NM	17.7	17.7	66
875	USLIFE	875	-1	870	1651	3	96.2	-1	5.8	6.1	9.5	11.1	6976
876	SEALED AIR	874	50	NR	519	15	37.2	44	7.2	5.7	29.4	NM	331
877	POLICY MANAGEMENT SYSTEMS	874	5	910	493	9	-9.7	NM	NM	NM	-2.3	-2.3	524
878	CONSECO	870	-38	606	1826	-31	154.4	-50	8.5	11.7	10.7	27.2	10887
879	M. A. HANNA	870	3	899	1719y	22	37.0	74	2.2	1.5	NA	9.1	1215
880	PHYSICIAN CORP. OF AMERICA	867	-16	773	814	49	52.5	31	6.5	7.3	21.4	22.5	648
881	HARTFORD STEAM BOILER INSPECTION	867	-13	802	604	-5	51.9	446	8.6	1.5	16.0	17.3	906
882	JOHN NUVEEN	865	-4	855	220	-10	58.2	-17	26.4	28.7	20.8	20.7	349
883	ATLANTA GAS LIGHT	864	-3	868	1167	1	38.7	-37	3.3	5.3	6.1	6.6	1714
884	FIRST HAWAIIAN	864	0	885	543a	6	76.9	-5	14.1	15.9	12.8	11.5	7535
885	CONSOLIDATED FREIGHTWAYS	863	-10	827	4680	12	60.3	19	1.3	1.2	7.1	8.0	2473
886	GTECH HOLDINGS	863	43	577	705	16	53.1	2	7.5	8.6	11.2	19.4	773
887	SPS TRANSACTION SERVICES	863	19	985	246y	20	37.7	23	15.4	14.9	26.1	26.1	769
888	VONS	862	13	956	4997	-2	26.6	-19	0.5	0.7	4.5	4.9	2222
889	MARTIN MARIETTA MATERIALS	860	-4	NR	502	11	58.3	22	11.6	10.6	13.4	15.8	596
890	RALCORP	857	NA	NR	998	8	54.0	4	5.4	5.7	11.6	38.2	700
891	NOVELLUS SYSTEMS	853	43	NR	225	98	44.9	179	20.0	14.2	21.0	21.0	265
892	MERCURY GENERAL	852	8	936	557a	6	75.5	-22	13.5	18.4	16.0	14.5	887
893	XTRA	852	14	968	363	10	60.9	51	16.8	12.2	11.1	18.4	977
894	COMSAT	850	-21	750	827	10	77.6	-6	9.4	10.9	6.8	9.4	1976
895	EQUITY RESIDENTIAL PROPERTIES TRUST	846	76	NR	189a	NA	27.9	NA	14.8	NA	5.2	5.2	1298
896	FRED MEYER	846	-18	774	3104a	6	28.6	-57	0.9	2.3	NA	5.4	1604
897	PROPERTY TRUST OF AMERICA	845	-10	831	186	137	46.7	83	25.1	32.5	5.3	4.9	1296
898	SYNOPSYS	844	27	944	210	33	18.0	3	8.6	11.1	13.5	13.5	222
899	ECKERD	842	33	NR	4428a	8	69.5	189	1.6	0.6	19.3	NM	1492
[illegible]	TRANSTEXAS GAS	842	NA	NR	334a	1	13.9	-83	4.2	24.9	NM	NM	571

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH/LOW $	PRICE AS % OF BOOK VALUE	P/E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONAL HOLDING	MIL	TURNOVER	FY	1994 ACTUAL $	1994 ACTUAL $	1995 EST $	VARIATION	
45/21	264	16	0.00	0	–21	77	42	463.2	02	1.01	1.40d	1.90	4.2	Consumer products
31/23	143	12	6.86	85	–6	38	35	28.5	09	2.11	2.13	1.95	10.3	Utilities
25/11	284	NM	0.00	0	NA	42	39	NA	12	0.89	–3.33	1.06	22.6	Health care
30/21	422	19	1.31	25	7	51	34	49.0	05	1.20	1.38d	1.69	3.0	Leisure
31/24	285	16	2.49	40	8	61	30	42.2	12	1.62	1.86	2.22	5.9	Manufacturing
31/22	478	18	2.22	40	–12	37	36	28.1	12	1.25	1.39	1.58	1.3	Services
24/14	371	17	2.84	48	–25	55	53	65.8	12	1.00	1.00	1.15	1.7	Chemicals
34/113	133	NA	0.81	NA	1	88	7	2.8	12	2.63	NA	NA	NM	Nonbank financial
35/26	150	10	2.91	29	12	38	26	98.7	12	3.93	3.48	3.76	1.1	Banks
24/19	241	16	1.36	22	–3	41	42	53.0	04	1.15	1.30d	1.48	2.7	Leisure
35/20	161	14	0.89	12	30	80	33	116.2	12	1.23	1.94	2.44	7.4	Chemicals
23/16	280	20	0.00	0	NA	15	47	NA	06	0.60	0.96	1.14	1.8	Health care
23/17	127	11	7.71	88	3	17	43	49.9	12	1.76	1.82	1.77	4.0	Utilities
20/12	321	17	0.00	0	–3	85	47	109.2	01	0.90	1.15	1.35	5.9	Retailing
34/25	179	12	3.15	37	20	22	27	33.6	12	2.26	2.83	3.07	1.6	Banks
29/22	213	10	4.36	46	5	38	36	28.9	12	2.24	2.37	2.64	1.5	Banks
33/23	281	18	1.44	26	16	58	29	48.7	12	–1.21	1.68	2.39	3.8	Electrical
45/38	138	12	3.36	39	11	83	20	49.1	12	2.99	3.88	4.35	2.1	Transportation
35/27	138	17	1.80	31	–8	73	30	77.1	12	NA	1.77	3.17	9.8	Paper
47/29	1426	48	0.09	4	34	57	19	177.1	12	0.63	0.98	1.33	2.3	Retailing
33/20	278	36	0.00	0	27	27	30	83.7	01	0.06	0.81d	1.21	2.5	Retailing
45/16	1599	64	0.00	0	98	32	21	123.0	09	0.27	0.65	1.02	2.9	Services
24/14	183	37	1.68	63	39	86	46	146.9	01	–0.35	0.51d	1.21	17.4	Retailing
69/21	1677	94	0.00	0	NA	15	14	NA	12	–0.71	0.69	0.93	3.2	Office equipment
41/31	97	9	3.46	32	1	72	23	38.5	12	4.25	4.18	4.55	2.9	Nonbank financial
42/27	NEG	22	0.00	0	43	65	21	34.6	12	1.32	1.87	2.32	3.0	Manufacturing
48/26	212	NM	0.00	0	22	87	19	78.5	12	–2.46	–0.46	2.33	4.3	Office equipment
61/33	174	7	1.40	10	–35	48	24	215.8	12	9.12b	5.00	5.73	8.9	Nonbank financial
29/22	215	20	2.22	45	5	67	36	54.5	12	0.97	1.20	1.64	7.3	Chemicals
30/19	371	17	0.00	0	–18	63	39	242.4	12	1.14	1.30	1.61	2.5	Health care
53/36	289	17	5.18	87	–8	57	20	28.9	12	0.63	2.54	2.94	4.8	Nonbank financial
25/19	307	15	2.75	42	2	14	37	28.3	12	1.76	1.52	1.71	7.0	Nonbank financial
37/29	167	14	6.16	89	1	20	26	21.5	09	2.16	2.34	2.37	3.4	Utilities
31/23	137	12	4.37	52	6	35	32	25.5	12	2.41	2.25	2.60	2.3	Banks
29/18	167	21	0.42	9	–11	76	36	131.9	12	0.87	1.11	2.30	7.4	Transportation
39/15	316	17	0.00	0	–44	52	43	136.3	02	1.29	1.19d	1.40	8.6	Office equipment
33/24	597	23	0.00	0	19	22	27	18.4	12	1.14	1.40	1.71	4.7	Services
22/15	159	33	0.00	0	13	43	43	44.0	12	0.76	0.61	1.45	5.5	Food
25/17	233	14	2.36	34	–21	15	46	26.8	12	NA	1.30	1.50	4.7	Housing
25/14	607	17	0.00	0	NA	48	34	68.7	09	NA	1.50	1.56	1.9	Food
57/26	398	19	0.00	0	25	98	16	578.6	12	1.10	2.72	3.76	7.4	Manufacturing
34/26	187	13	2.24	29	11	37	27	61.6	12	3.52	2.43	2.88	11.8	Nonbank financial
53/40	258	15	1.27	19	15	77	17	64.9	09	2.16	3.38	3.90	3.1	Services
28/18	103	11	4.39	48	–31	75	48	92.0	12	1.82	1.64	1.86	7.5	Telecommunications
35/25	156	21	7.39	154	–11	83	31	78.8	12	0.29	1.30d	1.19	NM	Housing
43/29	160	32	0.00	0	–19	54	27	60.8	01	2.50	0.99d	3.00	3.7	Retailing
22/16	135	25	6.25	159	–15	45	50	32.9	12	0.66	0.66	NA	NM	Housing
51/33	631	56	0.00	0	5	86	18	282.3	09	0.83	0.84	1.74	1.2	Office equipment
32/18	NEG	11	0.00	0	31	79	32	61.0	01	1.24	2.33d	2.61	2.3	Health care
14/9	NEG	34	0.00	0	NA	4	74	19.6	07	1.31	0.33	NA	NM	Fuel

	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
		$ MIL	CHANGE FROM 1993	YEAR-AGO RANK	12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994 $ MIL	CHANGE FROM 1993 %	12 MONTHS 1994 %	12 MONTHS 1993 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	12 MONTHS 1994 $ MIL
901	STERLING SOFTWARE	841	21	NR	490	16	-14.1	NM	NM	NM	NA	-8.2	567
902	STARBUCKS	838	30	NR	330	63	14.1	40	4.3	5.0	NA	12.6	420
903	POLARIS INDUSTRIES	838	28	NR	728a	48	65.0	55	8.9	8.5	64.4	64.4	266
904	HOME SHOPPING NETWORK	838	-32	658	1127	8	17.7	NM	1.6	NM	8.9	8.6	447
905	OVERSEAS SHIPHOLDING GROUP	837	10	960	358y	-5	-6.2	NM	NM	4.8	1.9	-0.8	1875
906	ARROW INTERNATIONAL	835	62	NR	189	23	30.0	21	15.9	16.0	17.8	21.5	215
907	LONE STAR STEAKHOUSE & SALOON	835	-3	882	195	103	27.7	86	14.2	15.6	16.4	16.4	184
908	MITCHELL ENERGY & DEVELOPMENT	833	-18	797	853a	-12	26.4	-32	3.1	4.0	4.6	3.5	2299
909	PEOPLESOFT	832	140	NR	113	94	14.5	73	12.9	14.5	15.6	15.6	172
910	HEALTH & RETIREMENT PROPERTIES TRUST	832	19	996	87	55	51.9	38	59.7	67.3	7.3	8.4	847
911	DEPARTMENT 56	832	27	NR	218	18	36.1	44	16.6	13.6	22.5	36.0	240
912	SYBRON	829	12	975	447	10	44.8	53	10.0	7.2	14.4	25.3	565
913	MEDIA GENERAL	828	21	NR	626	4	117.0	355	18.7	4.3	26.3	35.1	787
914	ROCHESTER GAS & ELECTRIC	824	-8	862	1001	5	74.4	-5	7.4	8.3	7.0	9.0	2466
915	TRIMAS	824	-20	778	535	21	50.1	32	9.4	8.6	11.2	18.0	603
916	BED BATH & BEYOND	821	-11	846	400	42	27.6	35	6.9	7.2	22.7	27.7	183
917	UNIVERSAL FOODS	818	-5	881	897	-1	72.0	25	8.0	6.4	16.4	22.0	764
918	PYXIS	813	-31	696	142	42	34.6	36	24.3	25.5	24.6	24.6	202
919	VENCOR	812	45	NR	400	42	31.4	37	7.9	8.1	NA	18.2	390
920	AIRGAS	811	21	NR	645	34	28.4	58	4.4	3.7	9.0	16.2	644
921	WASHINGTON WATER POWER	810	-11	850	671	5	77.2	-7	11.5	12.9	7.6	10.6	1883
922	SURGICAL CARE AFFILIATES	810	23	NR	237	20	31.4	-3	13.3	16.3	19.3	15.8	338
923	SANTA FE ENERGY RESOURCES	810	-2	911	391	-10	17.1	NM	4.4	NM	6.0	1.6	1071
924	LEE ENTERPRISES	809	-5	890	414y	9	54.4	26	13.1	11.4	18.4	22.5	487
925	MINNESOTA POWER	809	-11	916	638	26	61.3	-2	9.6	12.4	8.4	10.5	1808
926	SUPERIOR INDUSTRIES INTERNATIONAL	808	-33	677	457	16	56.3	25	12.3	11.5	25.3	28.5	361
927	WASHINGTON GAS LIGHT	808	-3	908	887	-1	57.9	1	6.5	6.4	8.9	11.2	1426
928	P. H. GLATFELTER	807	9	977	478	1	-118.3	NM	NM	4.3	-19.9	-27.9	651
929	FIRST BRANDS	806	2	940	1033	-2	54.3	-2	5.3	5.3	13.2	15.2	794
930	MIDWEST RESOURCES	806	-11	859	1068	-3	77.2	-13	7.2	8.0	7.6	10.3	2545
931	DAUPHIN DEPOSIT	805	13	995	392y	2	70.0	3	17.9	17.6	15.9	14.2	5070
932	BOSTON CHICKEN	805	6	961	96	126	16.2	882	16.8	3.9	5.1	6.8	427
933	BOYD GAMING	804	-19	803	564	27	16.2	-3	2.9	3.8	5.4	9.6	844
934	HEALTH CARE PROPERTY INVESTORS	800	1	924	99	7	50.0	13	50.5	47.6	13.7	18.6	550
935	MEDAPHIS	797	59	NR	253	50	17.4	90	6.9	5.4	7.1	9.2	359
936	WASHINGTON FEDERAL	797	-9	876	289	-2	89.3	-6	30.9	32.3	NA	16.3	4053
937	MOBILE TELECOMMUNICATIONS TECHS.	795	33	NR	148	14	-18.6	NM	NM	12.9	NM	-9.1	704
938	MICROCHIP TECHNOLOGY	794	33	NR	190	56	32.4	131	17.0	11.5	21.5	22.6	224
939	CREDIT ACCEPTANCE	793	73	NR	54	82	20.6	66	37.8	41.4	17.3	27.2	426
940	EG&G	792	-24	767	1333	1	-32.1	NM	NM	4.1	NA	-7.2	785
941	ZURICH REINSURANCE CENTRE HOLDINGS	790	15	NR	190a	55	-27.0	NM	NM	10.4	NM	-5.4	1107
942	BRUNO'S	790	26	NR	2863	-1	47.7	32	1.7	1.3	9.5	11.0	904
943	SHARED MEDICAL SYSTEMS	789	30	NR	551y	10	35.1	13	6.4	6.2	16.4	16.4	376
944	IES INDUSTRIES	788	-3	923	786	-2	67.7	-2	8.6	8.6	8.7	11.3	1844
945	MICRO WAREHOUSE	788	41	NR	776	72	28.0	87	3.6	3.3	17.7	17.8	218
946	SCHOLASTIC	784	28	NR	683	17	33.3	2	4.9	5.6	11.8	14.9	499
947	PENTAIR	784	20	NR	1649	24	53.6	15	3.3	3.5	8.7	13.0	1282
948	CHESAPEAKE	782	35	NR	991	12	37.6	262	3.8	1.2	7.8	9.9	987
949	ALBERTO-CULVER	781	30	NR	1243	7	46.7	13	3.8	3.5	14.1	14.0	621
950	TERRA INDUSTRIES	780	34	NR	1666y	35	56.2	146	3.4	1.8	18.8	19.3	770

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PAGE

TION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH-LOW $	PRICE AS % OF BOOK VALUE	P/E RATIO	YIELD %	PAYOUT %	TOTAL RETURN %	INSTITUTIONS HOLDING %	SHARE OUT MIL	TURNOVER %	FY	1993 ACTUAL $	1994 ACTUAL $	ANALYSTS' ESTIMATES 1995 EST $	VARIATION	
38/25	478	14	0.00	0	5	67	23	112.8	09	–2.00	2.54	2.77	4.3	Office equipment
33/21	763	70	0.00	0	3	38	35	314.2	09	0.29	0.34	0.69	4.3	Food
52/29	830	13	1.32	17	34	3	18	37.3	12	2.25	3.52d	3.21	1.2	Manufacturing
15/7	406	47	0.00	0	–33	51	94	75.7	12	–0.18	0.19	0.48	41.7	Retailing
26/17	102	NM	2.59	DEF	2	44	36	22.2	12	0.55	–0.17	0.65	27.7	Transportation
37/19	599	29	0.38	11	63	11	22	24.0	08	1.06	1.29	1.54	0.7	Health care
29/17	495	30	0.00	0	–3	66	34	268.9	12	0.46	0.82	1.21	5.8	Leisure
21/15	111	21	3.50	75	–18	22	52	13.3	01	0.49	0.71d	0.50	14.0	Fuel
40/13	892	62	0.00	0	133	66	24	462.9	12	0.33	0.56	0.80	5.0	Office equipment
17/13	135	15	9.17	136	0	24	57	51.9	12	1.10	0.98	NA	NM	Housing
40/27	829	23	0.00	0	26	44	21	53.3	12	1.16	1.67	2.09	3.8	Manufacturing
36/28	469	19	0.00	0	12	71	23	51.7	09	1.13	1.85	2.22	1.4	Health care
34/21	248	7	1.52	11	22	57	26	20.7	12	0.98	4.45	1.64	6.7	Publishing/TV
26/20	111	12	8.23	101	–3	38	38	57.9	12	2.00	1.79	2.37	4.2	Utilities
29/18	295	18	0.71	13	–19	37	37	33.0	12	1.01b	1.28	1.47	2.7	Manufacturing
33/23	826	29	0.00	0	–11	98	34	254.9	02	0.64	0.85d	1.08	2.8	Consumer products
34/26	250	16	3.06	49	–2	63	26	49.1	09	2.15	1.95	2.22	7.7	Food
34/16	578	25	0.00	0	–32	77	36	579.1	12	0.68	0.92	1.16	3.4	Office equipment
33/20	470	26	0.00	0	40	64	26	90.0	12	0.85	1.20	1.41	2.1	Health care
30/20	463	28	0.00	0	18	67	31	63.0	03	0.63	0.92d	1.21	5.8	Services
18/14	125	12	8.27	97	–6	17	54	29.5	12	1.44	1.28	1.38	5.1	Utilities
23/12	409	26	0.76	20	23	42	39	84.5	12	0.85	0.81	1.17	1.7	Health care
10/8	245	NM	0.00	0	–3	49	90	32.7	12	–0.94	0.06	0.15	66.7	Fuel
38/32	334	17	2.44	41	0	49	22	28.4	09	1.76	2.17	2.43	4.5	Publishing/TV
30/24	146	13	7.88	99	–4	15	31	29.4	12	2.20	2.06	2.23	5.4	Utilities
43/24	408	15	0.66	10	–32	51	30	86.9	12	1.47	1.85	2.21	2.3	Automotive
42/32	160	13	5.82	78	1	23	21	18.3	09	2.62	2.83	2.74	4.0	Utilities
18/15	190	NM	3.84	DEF	13	72	44	17.3	12	0.46	–2.67	1.27	15.7	Paper
38/32	225	14	1.07	15	5	88	22	55.8	06	2.41	2.71	2.60	2.3	Manufacturing
17/13	115	11	8.00	89	–5	14	56	22.2	12	1.47	1.30	1.35	3.0	Utilities
28/23	163	12	3.96	46	10	23	32	31.9	12	2.15	2.18	2.32	3.4	Banks
23/14	337	47	0.00	0	–18	26	45	231.9	12	0.07	0.38	0.57	3.5	Leisure
19/11	473	74	0.00	0	–19	6	57	13.2	06	0.37	0.19	0.61	9.8	Leisure
33/26	298	16	6.73	108	5	50	27	40.4	12	1.66	1.87	NA	NM	Housing
60/24	421	49	0.00	0	54	95	14	349.5	12	0.80	1.15	1.53	2.0	Services
23/17	146	9	4.40	38	–5	NA	40	58.0	09	2.33	2.32	2.24	11.6	Nonbank financial
24/15	268	NM	0.00	0	27	57	36	306.8	12	0.40	–0.76	–0.88	11.4	Telecommunications
32/13	553	25	0.00	0	28	88	31	325.8	03	0.62	1.00d	1.25	2.4	Electrical
20/10	1047	39	0.00	0	73	24	41	51.6	12	0.30	0.49	0.67	4.5	Nonbank financial
19/13	178	NM	3.90	DEF	–20	76	55	54.2	12	1.41	–0.58	1.12	17.0	Services
30/24	138	NM	0.00	0	15	36	26	12.8	12	0.77	–1.19	0.40	17.5	Nonbank financial
10/7	183	20	2.55	50	31	22	78	81.6	06	0.60	0.52	0.64	4.7	Food
38/22	369	23	2.44	56	32	70	23	193.1	12	1.35	1.51	1.68	1.2	Office equipment
30/25	133	12	7.67	90	3	20	29	22.2	12	2.45	2.34	2.48	4.4	Utilities
36/18	501	28	0.00	0	28	73	27	209.8	12	0.64	1.01	1.30	NM	Retailing
54/34	351	22	0.00	0	28	63	16	99.3	05	2.04	2.28d	2.74	2.2	Publishing/TV
45/33	212	16	1.86	31	21	64	18	68.8	12	2.26	2.62	3.07	3.9	Manufacturing
36/22	205	21	2.18	46	37	63	24	64.6	12	0.44	1.58	3.15	17.5	Paper
31/19	234	18	1.12	20	30	22	28	17.2	09	1.44	1.57	1.80	2.8	Consumer products
13/6	268	14	0.73	10	32	38	71	78.6	12	0.33	0.77	1.59	24.5	Chemicals

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	COMPANY	MARKET VALUE			SALES		PROFITS		MARGINS		RETURN		ASSETS
					12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994 $ MIL	CHANGE FROM 1993	12 MONTHS 1994	12 MONTHS 1993	ON INVESTED CAPITAL	ON COMMON EQUITY	12 MONTHS END $ MIL
951	TRINOVA	778	-27	754	1795	9	65.9	527	3.7	0.6	14.3	20.6	1001
952	VALERO ENERGY	776	-19	821	1837	50	26.9	-26	1.5	3.0	4.1	1.7	2648
953	SUNGARD DATA SYSTEMS	774	6	983	437	15	43.1	12	9.9	10.1	12.3	12.3	486
954	VALSPAR	774	-15	861	800	14	46.6	14	5.8	5.8	23.0	26.8	365
955	CENTURY COMMUNICATIONS	773	-17	841	391	8	-58.3	NM	NM	NM	NM	NM	1689
956	FRANCHISE FINANCE CORP. OF AMERICA	770	NA	NR	91	-3	25.9	-52	28.4	57.3	5.1	4.8	604
957	FRANKLIN QUEST	770	1	963	231	30	33.4	30	14.5	14.5	18.6	19.1	205
958	BATTLE MOUNTAIN GOLD	769	-17	844	230	19	9.5	NM	4.1	NM	3.3	NA	680
959	BABY SUPERSTORE	768	NA	NR	175	68	7.1	88	4.1	3.6	13.2	12.8	87
960	ARGONAUT GROUP	767	3	933	394	-10	76.7	-14	19.5	20.3	10.3	10.3	2094
961	GEON	763	2	992	1209	24	57.9	NM	4.8	0.2	18.0	22.0	792
962	EXIDE	762	73	NR	1020	60	22.2	52	2.2	2.3	9.0	12.9	794
963	KIMCO REALTY	762	-1	954	123a	28	40.0	29	32.5	32.4	NA	10.3	708
964	ANNTAYLOR STORES	759	28	NR	604a	23	27.4	170	4.5	2.1	6.8	8.6	585
965	FINGERHUT	758	-42	637	1934	7	45.9	-39	2.4	4.2	8.5	9.2	1013
966	WISCONSIN CENTRAL TRANSPORTATION	757	27	NR	211	39	38.3	103	18.1	12.4	14.6	21.2	444
967	BIC	757	11	NR	475	8	51.6	15	10.9	10.2	20.6	20.6	369
968	VALLEY NATIONAL BANCORP	756	-11	987	253	2	59.0	4	23.3	22.9	19.8	19.7	3744
969	J. B. HUNT TRANSPORT SERVICES	751	-19	838	1208	18	40.4	6	3.3	3.7	7.9	10.9	994
970	LINCARE HOLDINGS	750	13	NR	201	30	38.0	34	18.9	18.3	24.2	25.7	196
971	HIBERNIA	750	20	NR	423a	4	75.0	78	17.7	10.3	16.2	16.9	6336
972	ROBERTS PHARMACEUTICAL	748	29	NR	111a	51	18.0	NM	16.2	2.2	7.6	7.1	335
973	BREED TECHNOLOGIES	747	-17	874	322y	41	62.0	136	19.2	11.5	NA	38.5	224
974	J&L SPECIALTY STEEL	744	21	NR	712	10	53.6	47	7.5	5.6	12.9	17.6	658
975	AMERCO	744	NA	NR	1232	12	63.1	50	5.1	3.8	7.0	8.5	2537
976	VIVRA	744	53	NR	287y	32	29.7	25	10.4	10.9	14.9	14.7	276
977	VORNADO REALTY TRUST	742	-4	950	77a	2	38.9	125	50.3	22.7	15.8	32.8	394
978	VALASSIS COMMUNICATIONS	742	7	931	563y	-6	3.8	-92	0.7	8.1	NM	NM	234
979	WESTERN NATIONAL	740	-4	NR	665	5	73.3	-38	11.0	18.8	14.5	17.4	8321
980	FAMILY DOLLAR STORES	736	-22	829	1450	9	62.6	-5	4.3	4.9	16.5	16.4	606
981	GREAT ATLANTIC & PACIFIC TEA	736	-27	792	10324	-1	-191.8	NM	NM	NM	NM	-24.9	3015
982	CHIPCOM	733	42	NR	268	67	18.6	50	6.9	7.7	NA	11.7	222
983	READ-RITE	730	39	NR	726	32	41.6	NM	5.7	NM	8.9	9.9	670
984	OLD NATIONAL BANCORP	730	8	993	287a	0	45.1	5	15.7	15.0	12.7	12.9	4152
985	BURLINGTON INDUSTRIES	730	-32	748	2170	5	93.2	20	4.3	3.8	8.5	16.8	1865
986	FLEMING	728	-23	826	15753	20	56.2	50	0.4	0.3	3.8	5.2	4624
987	AMERICAN FREIGHTWAYS	728	32	NR	466	42	27.0	61	5.8	5.1	11.9	15.9	355
988	TOOTSIE ROLL INDUSTRIES	727	-3	965	297	14	37.9	7	12.8	13.7	14.2	15.9	339
989	CENTEX	727	-38	695	3351y	17	105.1	33	3.1	2.8	11.8	15.6	1979
990	TRANSCO ENERGY	726	13	NR	2816	-4	12.2	NM	0.4	NM	7.3	-4.2	3825
991	MAGMA COPPER	725	6	NR	890	12	87.4	283	9.8	2.9	9.3	10.4	1422
992	INTERNATIONAL CABLETEL	724	60	NR	13a	26	-31.3	NM	NM	NM	NA	-7.0	643
993	DIAMOND SHAMROCK	722	-14	906	2606	2	75.8	133	2.9	1.3	9.4	12.4	1621
994	CANANDAIGUA WINE	720	64	NR	719	84	16.4	-7	2.3	4.5	5.3	5.2	918
995	SYMANTEC	720	50	NR	316	0	25.3	NM	8.0	NM	NA	32.2	196
996	ALLIANCE SEMICONDUCTOR	717	317	NR	95	99	16.9	129	17.8	15.5	17.4	17.4	111
997	ENERGY SERVICE	716	-7	952	262	6	37.2	122	14.2	6.8	NA	7.3	778
998	FERRO	716	-30	784	1194	12	47.4	-18	4.0	5.4	11.4	NA	802
999	CENTRAL NEWSPAPERS	716	-3	973	506	11	42.8	49	8.5	6.3	14.0	13.6	479
1000	KENNAMETAL	716	4	NR	881	30	47.4	NM	5.4	0.2	12.9	14.2	704

ALPHABETICAL INDEX OF COMPANIES BEGINS ON PA

ION			DIVIDENDS			SHARES				EARNINGS PER SHARE				INDUSTRY GROUP
12-MONTH HIGH/LOW $	PRICE AS % OF BOOK VALUE	P-E RATIO	YIELD	PAYOUT	TOTAL RETURN	INSTITUTIONS HOLDING	SHRS OUT MIL	TURNOVER	FY	ACTUAL $	ACTUAL $	ANALYSTS' ESTIMATES 1995 EPS $	VARI-ATION	
40/24	243	12	2.67	32	–26	74	29	74.6	12	0.37	2.26	2.81	6.1	Manufacturing
23/16	77	45	2.91	130	–17	75	43	50.0	12	0.82	0.40	1.45	22.8	Fuel
43/32	221	18	0.00	0	6	85	19	103.0	12	2.14	2.24	2.59	1.9	Office equipment
46/31	444	17	1.68	29	7	50	22	27.2	10	1.85	2.08	2.21	2.3	Housing
11/6	NEG	NM	0.00	0	–17	18	90	10.6	05	–0.53	–0.67d	–0.43	39.5	Publishing/TV
22/17	143	30	5.49	164	NA	13	40	NA	12	1.33	0.64	1.86	1.1	Housing
41/27	440	25	0.00	0	–4	53	22	59.2	08	1.10	1.40	1.74	1.2	Office equipment
13/9	297	NM	0.53	250	–17	47	81	139.8	12	–0.10	0.02	0.15	66.7	Metals
44/21	1383	95	0.00	0	NA	8	18	NA	01	0.25	0.44	0.69	1.5	Retailing
32/26	103	10	3.77	39	4	30	25	21.1	12	3.48	3.00	3.33	4.5	Nonbank financial
32/25	290	14	1.72	24	8	NA	26	129.8	12	0.22	2.06	3.02	12.9	Chemicals
58/31	443	29	0.16	5	61	62	15	101.6	03	1.56	1.77d	3.40	4.1	Manufacturing
39/33	230	22	6.68	144	4	46	20	33.2	12	1.76	1.76	NA	NM	Housing
45/29	240	24	0.00	0	19	99	23	209.4	01	0.66	1.40	1.92	4.2	Retailing
33/14	151	18	0.98	18	–42	90	46	145.5	12	1.50	0.91	1.56	3.2	Retailing
48/32	419	20	0.00	0	26	78	17	111.3	12	1.14	2.31	2.84	2.8	Transportation
33/26	302	15	2.86	42	14	15	24	9.7	12	1.90	2.19	2.40	2.9	Manufacturing
32/24	252	13	3.83	49	1	7	29	5.9	12	2.05	2.06	2.40	5.8	Banks
25/15	202	19	1.03	19	–19	32	39	73.9	12	1.00	1.05	1.26	5.6	Transportation
31/19	509	21	0.00	0	11	87	27	172.4	12	1.01	1.34	1.63	1.8	Health care
9/7	150	10	3.10	31	6	38	97	46.6	12	0.58	0.78	1.05	3.8	Banks
43/20	295	39	0.00	0	29	41	18	167.5	12	0.46	1.04d	1.52	10.5	Health care
44/20	464	15	0.21	3	–17	35	31	203.6	06	0.59	1.56	2.28	3.5	Automotive
21/13	245	14	1.87	26	24	32	39	50.4	12	1.15	1.39	1.79	7.8	Metals
23/16	133	NA	0.00	0	NA	NA	39	NA	03	1.06	NA	NA	NM	Transportation
33/22	367	22	0.00	0	34	71	23	52.8	11	1.19	1.45	1.71	1.2	Health care
38/30	626	18	6.54	119	1	33	22	19.9	12	1.60	1.89	NA	NM	Housing
20/13	NEG	NM	0.00	0	–7	46	43	41.5	12	1.89	0.12	0.77	13.0	Services
16/10	176	10	1.35	14	–7	39	62	81.8	12	1.91	1.18	1.64	3.0	Nonbank financial
18/10	193	12	2.62	31	–20	56	57	71.1	08	1.15	1.10	1.19	7.6	Retailing
27/17	96	31	1.04	32	–25	37	38	24.5	02	0.10	0.63d	1.17	15.4	Food
51/21	461	42	0.00	0	28	98	16	644.7	12	0.97	1.07	2.02	3.0	Office equipment
20/11	175	37	0.00	0	33	63	46	318.8	09	0.02	0.43	1.81	2.2	Electrical
36/34	204	18	2.63	46	3	18	21	14.5	12	2.10	1.98	NA	NM	Banks
17/9	132	8	0.00	0	–30	70	66	85.8	09	1.19	1.46	1.14	4.4	Manufacturing
30/19	68	13	6.15	79	–20	79	37	83.3	12	1.02	1.51	1.69	3.0	Food
25/18	428	27	0.00	0	21	41	31	71.1	12	0.59	0.89	1.12	1.8	Transportation
72/54	304	19	0.66	13	–3	21	11	13.8	12	3.26	3.50	NA	NM	Food
38/20	108	14	0.78	11	–31	76	29	171.4	03	2.60	1.78d	1.72	11.0	Housing
18/12	180	NM	3.38	DEF	19	56	41	69.4	12	–1.54	–0.42	1.20	9.2	Utilities
19/13	100	10	0.00	0	5	46	46	132.5	12	0.42	1.54	2.82	33.0	Metals
36/18	162	NM	0.00	0	60	72	23	156.6	12	–1.11	–1.20d	–1.81	9.4	Telecommunications
30/23	125	10	2.24	23	–12	83	29	64.1	12	1.04	2.45	2.59	9.3	Fuel
41/20	227	50	0.00	0	35	41	19	138.9	08	1.30	0.74	NA	NM	Consumer products
22/10	917	21	0.00	0	42	67	36	314.6	03	–0.37	0.94d	1.14	4.4	Office equipment
40/6	741	40	0.00	0	306	28	19	261.9	03	0.49	0.96d	1.32	21.2	Electrical
19/11	149	19	0.00	0	–15	53	61	76.1	12	0.32	0.61	0.70	12.9	Fuel
35/22	215	17	2.11	36	–25	83	28	82.8	12	1.83	1.52	1.85	3.8	Chemicals
30/24	228	15	2.08	32	–2	41	27	20.1	12	1.21	1.77d	2.05	2.4	Publishing/TV
30/23	215	60	2.22	133	5	79	27	91.6	06	0.93	0.45	2.04	5.4	Manufacturing

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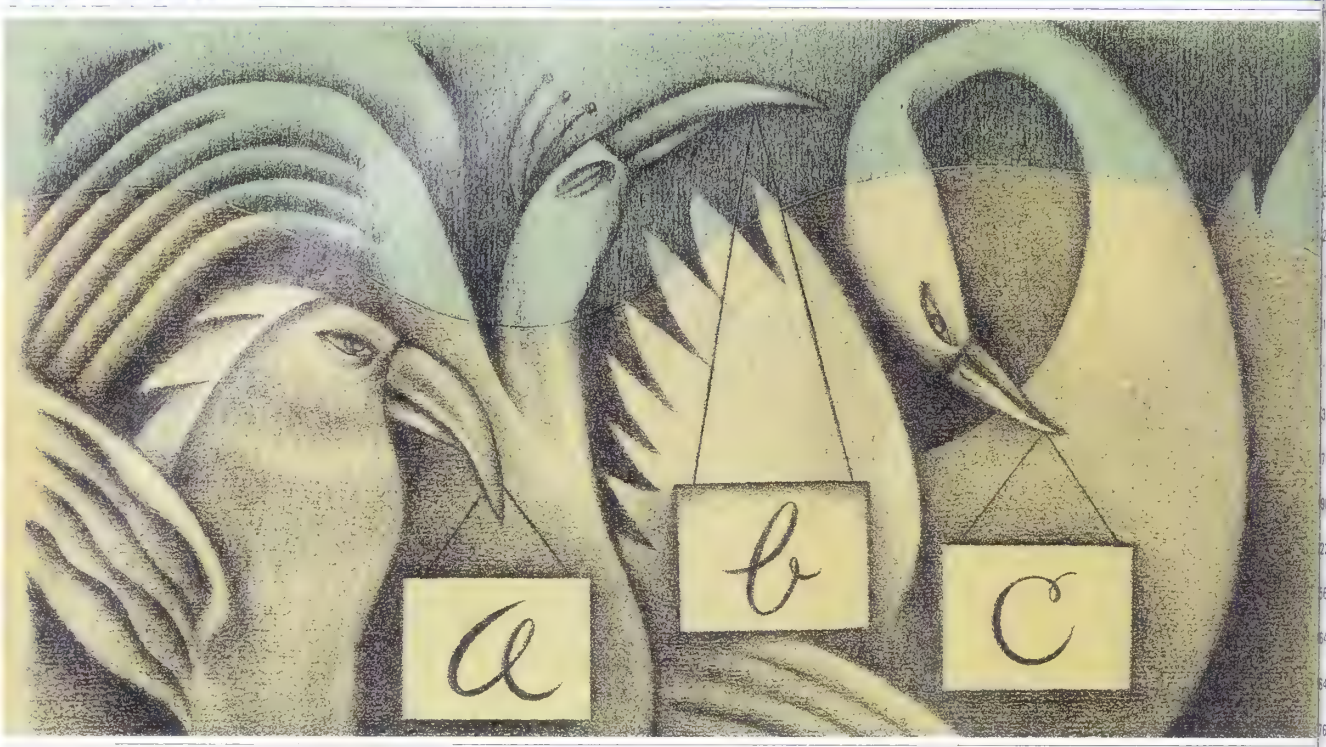


ALPHABETICAL LIST OF COMPANIES

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. That list begins on page104. The numbers immediately to the right identify the company's rank in sales, profits, and assets, respectively, among all Business Week 1000 companies.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
	A			
25	**ABBOTT LABORATORIES** One Abbott Park Rd, Abbott Park, IL 60064/708-937-6100	118	32	232
537	**ADAPTEC** 691 South Milpitas Blvd, Milpitas, CA 95035/408-945-8600	882	602	925
570	**ADC TELECOMMS.** 4900 West 78th St, Minneapolis, MN 55435/612-938-8080	865	820	946
425	**ADOBE SYSTEMS** 1585 Charleston Rd, Mountain View, CA 94043/415-961-4400	815	943	857
340	**ADVANCED MICRO DEVICES** One AMD Place, Sunnyvale, CA 94088/408-732-2400	447	208	511
622	**ADVANTA** 300 Welsh Rd, Horsham, PA 19044/215-657-4000	879	499	448
613	**AES** 1001 North 19th St, Arlington, VA 22209/703-522-1315	840	522	584
158	**AETNA LIFE & CASUALTY** 151 Farmington Ave, Hartford, CT 06156/203-273-0123	38	139	22
275	**AFLAC** 1932 Wynnton Rd, Columbus, GA 31999/706-323-3431	175	213	103
434	**AHMANSON (H.F.)** 4900 Rivergrade Rd, Irwindale, CA 91706/818-960-6311	319	269	37
172	**AIR PRODUCTS & CHEMICALS** 7201 Hamilton Blvd, Allentown, PA 18195/610-481-4911	292	260	331
920	**AIRGAS** 100 Matsonford Rd, Radnor, PA 19087/610-687-5253	798	881	852
64	**AIRTOUCH COMMUNS.** 1 California St, San Francisco, CA 94111/415-658-2000	639	525	375
831	**ALBEMARLE** 451 Florida Blvd, Baton Rouge, LA 70801/504-388-8011	652	792	722
949	**ALBERTO-CULVER** 2525 Armitage Ave, Melrose Park, IL 60160/708-450-3000	606	810	859
118	**ALBERTSON'S** 250 Parkcenter Blvd, Boise, ID 83706/208-385-6200	85	166	415
804	**ALC COMMUNICATIONS** 30300 Telegraph Rd, Bingham Farms, MI 48025/810-647-4060	826	700	963
276	**ALCO STANDARD** 825 Duportail Rd, Wayne, PA 19087/610-296-8000	138	584	401
823	**ALEXANDER & ALEXANDER** 1185 Ave of the Americas, New York, NY 10036/212-840-8500	593	983	471
800	**ALEXANDER & BALDWIN** 822 Bishop St, Honolulu, HI 96801/808-525-6611	620	647	573
744	**ALLEGHANY** Park Ave Plaza, New York, NY 10055/212-752-1356	489	684	414
584	**ALLEGHENY LUDLUM** 1000 Six PPG Place, Pittsburgh, PA 15222/412-394-2800	653	913	735
350	**ALLEGHENY POWER SYSTEM** 12 East 49th St, New York, NY 10017/212-752-2121	411	267	276
508	**ALLERGAN** 2525 Dupont Dr, Irvine, CA 92715/714-752-4500	690	477	738
996	**ALLIANCE SEMICONDUCTOR** 3099 North First St, San Jose, CA 95134/408-383-4900	989	920	996
77	**ALLIEDSIGNAL** 101 Columbia Rd, Morristown, NJ 07962/201-455-2000	69	79	187
694	**ALLMERICA PROPERTY** 440 Lincoln St, Worcester, MA 01653/508-855-1000	465	515	316
69	**ALLSTATE** 2775 Sanders Rd, Northbrook, IL 60062/708-402-5000	27	136	34
179	**ALLTEL** One Allied Dr, Little Rock, AR 72202/501-661-8000	357	229	350
706	**ALTERA** 2610 Orchard Pkwy, San Jose, CA 95134/408-894-7000	957	927	987
656	**ALUMAX** 5655 Peachtree Pkwy, Norcross, GA 30092/404-246-6600	379	812	468
133	**ALUMINUM CO. OF AMERICA** 425 6th Ave, Pittsburgh, PA 15219/412-553-4545	106	148	165
499	**ALZA** 950 Page Mill Rd, Palo Alto, CA 94303/415-494-5000	938	742	801
599	**AMBAC** One State St Plaza, New York, NY 10004/212-668-0340	949	405	374
644	**AMDAHL** 1250 East Arques Ave, Sunnyvale, CA 94088/408-746-6000	524	646	625
218	**AMERADA HESS** 1185 Ave of the Americas, New York, NY 10036/212-997-8500	161	653	230
975	**AMERCO** 1325 Airmotive Way, Reno, NV 89502/702-688-6300	609	706	494
741	**AMERICA ONLINE** 8619 Westwood Center Dr, Vienna, VA 22182/703-448-8700	958	971	992
125	**AMERICAN BRANDS** 1700 East Putnam Ave, Old Greenwich, CT 06870/203-698-5000	65	63	207
153	**AMERICAN ELECTRIC POWER** One Riverside Plaza, Columbus, OH 43215/614-223-1000	194	119	131
47	**AMERICAN EXPRESS** World Finl Center, New York, NY 10285/212-640-2000	56	35	21
987	**AMERICAN FREIGHTWAYS** 2200 Forward Dr, Harrison, AR 72601/501-741-9000	870	891	940
147	**AMERICAN GENERAL** 2929 Allen Pkwy, Houston, TX 77019/713-522-1111	216	203	47
428	**AMERICAN GREETINGS** One American Rd, Cleveland, OH 44144/216-252-7300	487	413	622
35	**AMERICAN HOME PRODUCTS** Five Giralda Farms, Madison, NJ 07940/201-660-5000	121	31	241
16	**AMERICAN INTL. GROUP** 70 Pine St, New York, NY 10270/212-770-7000	24	18	16
633	**AMERICAN NATIONAL** One Moody Plaza, Galveston, TX 77550/409-763-4661	572	299	291
547	**AMERICAN POWER** 132 Fairgrounds Rd, West Kingston, RI 02892/401-789-5735	906	667	965
720	**AMERICAN PREMIER** One East Fourth St, Cincinnati, OH 45202/513-579-6600	486	950	379

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
0	**AMERICAN RE** 555 College Rd East, Princeton, NJ 08543/609-243-4200	512	528	271
37	**AMERICAN STORES** 709 East South Temple, Salt Lake City, UT 84102/801-539-0112	36	184	260
17	**AMERICAN WATER WORKS** 1025 Laurel Oak Rd, Voorhees, NJ 08043/609-346-8200	749	618	440
1	**AMERITECH** 30 South Wacker Dr, Chicago, IL 60606/312-750-5000	74	47	108
3	**AMGEN** 1840 Dehavilland Dr, Thousand Oaks, CA 91320/805-447-1000	522	200	588
2	**AMOCO** 200 East Randolph Dr, Chicago, IL 60601/312-856-6111	19	24	75
6	**AMP** 470 Friendship Rd, Harrisburg, PA 17111/717-564-0100	265	175	402
2	**AMPHENOL** 358 Hall Ave, Wallingford, CT 06492/203-265-8900	773	828	837
3	**AMR** 4333 Amon Carter Blvd, Fort Worth, TX 76155/817-963-1234	44	280	104
5	**AMSOUTH BANCORP.** 1900 Fifth Ave North, Birmingham, AL 35203/205-320-7151	611	438	121
6	**ANADARKO PETROLEUM** 17001 Northchase Dr, Houston, TX 77060/713-875-1101	862	836	545
6	**ANALOG DEVICES** Three Technology Way, Norwood, MA 02062/617-329-4700	739	594	798
2	**ANDREW** 10500 West 153rd St, Orland Park, IL 60462/708-349-3300	824	799	919
6	**ANHEUSER-BUSCH** One Busch Place, St. Louis, MO 63118/314-577-2000	83	51	189
4	**ANNTAYLOR STORES** 142 West 57th St, New York, NY 10019/212-541-3300	812	890	872
4	**AON** 123 North Wacker Dr, Chicago, IL 60606/312-701-3000	257	177	113
6	**APACHE** 2000 Post Oak Blvd, Houston, TX 77056/713-296-6000	835	824	627
8	**APPLE COMPUTER** One Infinite Loop, Cupertino, CA 95014/408-996-1010	111	143	307
8	**APPLIED MATERIALS** 3050 Bowers Ave, Santa Clara, CA 95054/408-727-5555	491	265	602
5	**ARCHER DANIELS MIDLAND** 4666 Faries Pkwy, Decatur, IL 62526/217-424-5200	80	100	210
3	**ARCO CHEMICAL** 3801 West Chester Pike, Newtown Square, PA 19073/610-359-2000	305	232	405
0	**ARGONAUT GROUP** 1800 Ave of the Stars, Los Angeles, CA 90067/310-553-0561	899	635	552
0	**ARMSTRONG WORLD** 313 West Liberty St, Lancaster, PA 17604/717-397-0611	380	304	522
3	**ARROW ELECTRONICS** 25 Hub Dr, Melville, NY 11747/516-391-1300	231	475	563
3	**ARROW INTERNATIONAL** 3000 Bernville Rd, Reading, PA 19605/610-378-0131	963	878	980
5	**ASARCO** 180 Maiden Lane, New York, NY 10038/212-510-2000	459	701	431
5	**ASHLAND** 1000 Ashland Dr, Russell, KY 41169/606-329-3333	109	356	294
1	**AT&T** 32 Ave of the Americas, New York, NY 10013/212-387-5400	5	6	28
9	**AT&T CAPITAL** 44 Whippany Rd, Morristown, NJ 07962/201-397-3000	574	518	243
3	**ATLANTA GAS LIGHT** 303 Peachtree St NE, Atlanta, GA 30308/404-584-4000	635	845	628
9	**ATLANTIC ENERGY** 6801 Black Horse Pike, Pleasantville, NJ 08232/609-645-4100	699	548	491
	ATLANTIC RICHFIELD 515 South Flower St, Los Angeles, CA 90071/213-486-3511	52	62	87
3	**ATMEL** 2125 O'Nel Dr, San Jose, CA 95131/408-441-0311	908	735	901
3	**AUTODESK** 111 McInnis Pkwy, San Raphael, CA 94903/415-507-5000	873	751	904
1	**AUTOMATIC DATA** One ADP Blvd, Roseland, NJ 07068/201-994-5000	395	178	476
3	**AUTOZONE** 3030 Poplar Ave, Memphis, TN 38111/901-325-4600	538	451	772
	AVERY DENNISON 150 North Orange Grove Blvd, Pasadena, CA 91103/818-304-2000	363	483	612
5	**AVNET** 80 Cutter Mill Rd, Great Neck, NY 11021/516-466-7000	277	467	574
5	**AVON PRODUCTS** Nine West 57th St, New York, NY 10019/212-546-6015	252	237	570

B

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
959	**BABY SUPERSTORE** 605 Haywood Rd, Greenville, SC 29607/803-675-0299	970	940	997
361	**BAKER HUGHES** 3900 Essex Lane, Houston, TX 77027/713-439-8600	407	412	454
811	**BALL** 345 South High St, Muncie, IN 47305/317-747-6100	398	657	617
280	**BALTIMORE G&E** 39 West Lexington St, Baltimore, MD 21203/410-234-5000	374	196	240
74	**BANC ONE** 100 East Broad St, Columbus, OH 43271/614-248-5800	142	55	24
709	**BANCORP HAWAII** 130 Merchant St, Honolulu, HI 96813/808-537-8111	693	459	169
567	**BANDAG** 2905 North Hwy 61, Muscatine, IA 52761/319-262-1400	796	546	873
312	**BANK OF BOSTON** 100 Federal St, Boston, MA 02110/617-434-2200	249	150	48
152	**BANK OF NEW YORK** 48 Wall St, New York, NY 10286/212-495-1784	263	80	44
784	**BANK SOUTH** 55 Marietta St NW, Atlanta, GA 30303/404-529-4111	860	564	267
42	**BANKAMERICA** 555 California St, San Francisco, CA 94104/415-622-3456	49	17	4
734	**BANKERS LIFE HOLDING** 222 Merchandise Mart Plaza, Chicago, IL 60654/312-396-6000	565	411	389
200	**BANKERS TRUST N. Y.** 280 Park Ave, New York, NY 10017/212-250-2500	164	106	20
805	**BANPONCE** 209 Munoz Rivera Ave, Hato Rey, PR 00918/809-765-9800	673	445	171
607	**BARD (C. R.)** 730 Central Ave, Murray Hill, NJ 07974/908-277-8000	670	645	768
871	**BARNES & NOBLE** 122 Fifth Ave, New York, NY 10011/212-633-3300	552	932	763
226	**BARNETT BANKS** 50 North Laura St, Jacksonville, FL 32202/904-791-7720	337	134	54
958	**BATTLE MOUNTAIN GOLD** 333 Clay St, Houston, TX 77002/713-650-6400	947	938	835
480	**BAUSCH & LOMB** One Chase Square, Rochester, NY 14604/716-338-6000	484	931	488
100	**BAXTER INTERNATIONAL** One Baxter Pkwy, Deerfield, IL 60015/708-948-2000	115	112	206
482	**BAY NETWORKS** 4401 Great America Pkwy, Santa Clara, CA 95052/408-988-2400	724	670	784
700	**BAYBANKS** 175 Federal St, Boston, MA 02110/617-482-1040	715	485	197
448	**BEAR STEARNS** 245 Park Ave, New York, NY 10167/212-272-2000	317	297	30
867	**BECKMAN INSTRUMENTS** 2500 Harbor Blvd, Fullerton, CA 92634/714-871-4848	707	808	794
285	**BECTON, DICKINSON** One Becton Dr, Franklin Lakes, NJ 07417/201-847-6800	397	271	455
916	**BED BATH & BEYOND** 715 Morris Ave, Springfield, NJ 07081/201-379-1520	893	889	990
32	**BELL ATLANTIC** 1717 Arch St, Philadelphia, PA 19103/215-963-6000	58	34	88
24	**BELLSOUTH** 1155 Peachtree St NE, Atlanta, GA 30309/404-249-2000	39	19	66
728	**BELO (A. H.)** 400 South Record St, Dallas, TX 75202/214-977-6606	806	680	778
610	**BEMIS** 222 South Ninth St, Minneapolis, MN 55402/612-376-3000	573	658	774
481	**BENEFICIAL** 301 North Walnut St, Wilmington, DE 19801/302-425-2500	446	298	143
750	**BERGEN BRUNSWIG** 4000 Metropolitan Dr, Orange, CA 92668/714-385-4000	144	736	558
28	**BERKSHIRE HATHAWAY** 1440 Kiewit Plaza, Omaha, NE 68131/402-346-1400	260	69	98
851	**BEST BUY** 7075 Flying Cloud Dr, Eden Prairie, MN 55344/612-947-2000	248	788	567
526	**BETHLEHEM STEEL** 1170 Eighth Ave, Bethlehem, PA 18016/610-694-2424	221	604	296
675	**BETZ LABORATORIES** 4636 Somerton Rd, Trevose, PA 19053/215-355-3300	768	656	881
729	**BEVERLY ENTERPRISES** 1200 South Waldron Rd, Fort Smith, AR 72903/501-452-6712	355	633	557
491	**BHC COMMUNICATIONS** 767 Fifth Ave, New York, NY 10153/212-421-0200	883	550	536
967	**BIC** 500 BIC Dr, Milford, CT 06460/203-783-2000	867	783	934
618	**BIOGEN** 14 Cambridge Center, Cambridge, MA 02142/617-679-2000	975	952	931
498	**BIOMET** Airport Industrial Park, Warsaw, IN 46580/219-267-6639	895	650	900
415	**BLACK & DECKER** 701 East Joppa Rd, Towson, MD 21286/410-716-3900	206	437	313
251	**BLOCK (H&R)** 4410 Main St, Kansas City, MO 64111/816-753-6900	598	361	783
555	**BMC SOFTWARE** 2101 City West Blvd, Houston, TX 77042/713-918-8800	919	677	908
252	**BOATMEN'S BANCSHARES** 800 Market St, St. Louis, MO 63101/314-466-6000	452	179	74
860	**BOB EVANS FARMS** 3776 South High St, Columbus, OH 43207/614-491-2225	759	786	912
51	**BOEING** 7755 East Marginal Way South, Seattle, WA 98108/206-655-2121	26	66	97
676	**BOISE CASCADE** 1111 Jefferson St, Boise, ID 83702/208-384-6161	259	978	364
516	**BORDEN** 180 East Broad St, Columbus, OH 43215/614-225-4000	193	998	387
932	**BOSTON CHICKEN** 14103 Denver West Pkwy, Golden, CO 80401/303-278-9500	988	925	917
726	**BOSTON EDISON** 800 Boylston St, Boston, MA 02199/617-424-2000	544	443	413
451	**BOSTON SCIENTIFIC** One Boston Scientific Place, Natick, MA 01760/508-650-8000	877	612	914
682	**BOWATER** 55 East Camperdown Way, Greenville, SC 29601/803-271-7733	582	951	466
933	**BOYD GAMING** 2950 South Industrial Rd, Las Vegas, NV 89109/702-792-7200	828	924	795
973	**BREED TECHNOLOGIES** 5300 Old Tampa Hwy, Lakeland, FL 33811/813-284-6000	922	714	973
794	**BRIGGS & STRATTON** 12301 West Wirth St, Wauwatosa, WI 53222/414-259-5333	584	472	818
602	**BRINKER INTERNATIONAL** 6820 LBJ Fwy, Dallas, TX 75240/214-980-9917	689	682	866
19	**BRISTOL-MYERS SQUIBB** 345 Park Ave, New York, NY 10154/212-546-4000	84	22	161
788	**BRODERBUND SOFTWARE** 500 Redwood Blvd, Novato, CA 94948/415-382-4400	979	922	995
710	**BROOKLYN UNION GAS** One Metrotech Center, Brooklyn, NY 11201/718-403-2000	590	570	546
419	**BROWN-FORMAN** 850 Dixie Hwy, Louisville, KY 40210/502-585-1100	566	401	685
156	**BROWNING-FERRIS** 757 North Eldridge, Houston, TX 77079/713-870-8100	228	201	268
942	**BRUNO'S** 800 Lakeshore Pkwy, Birmingham, AL 35211/205-940-9400	362	804	781
493	**BRUNSWICK** One North Field Court, Lake Forest, IL 60045/708-735-4700	388	433	550
985	**BURLINGTON INDUSTRIES** 3330 West Friendly Ave, Greensboro, NC 27410/910-379-2000	440	549	594
196	**BURLINGTON NORTHERN** 777 Main St, Fort Worth, TX 76102/817-333-2000	212	160	249
205	**BURLINGTON RESOURCES** 5051 Westheimer, Houston, TX 77056/713-624-9000	662	383	342

C

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
347	**CABLETRON SYSTEMS** 35 Industrial Way, Rochester, NH 03866/603-332-9400	754	391	856
637	**CABLEVISION SYSTEMS** One Media Crossways, Woodbury, NY 11797/516-364-8450	725	996	538
646	**CABOT** 75 State St, Boston, MA 02109/617-345-0100	507	534	650
810	**CADENCE DESIGN** 555 River Oaks Pkwy, San Jose, CA 95134/408-943-1234	887	858	936
715	**CALLAWAY GOLF** 2285 Rutherford Rd, Carlsbad, CA 92008/619-931-1771	878	623	969
75	**CAMPBELL SOUP** Campbell Place, Camden, NJ 08103/609-342-4800	154	92	314
994	**CANANDAIGUA WINE** 116 Buffalo St, Canandaigua, NY 14424/716-394-7900	764	921	776
61	**CAPITAL CITIES/ABC** 77 West 66th St, New York, NY 10023/212-456-7777	167	93	279
692	**CAPITAL ONE FINANCIAL** 2980 Fairview Park, Falls Church, VA 22042/804-967-1000	792	542	449

THE BUSINESS WEEK 1000

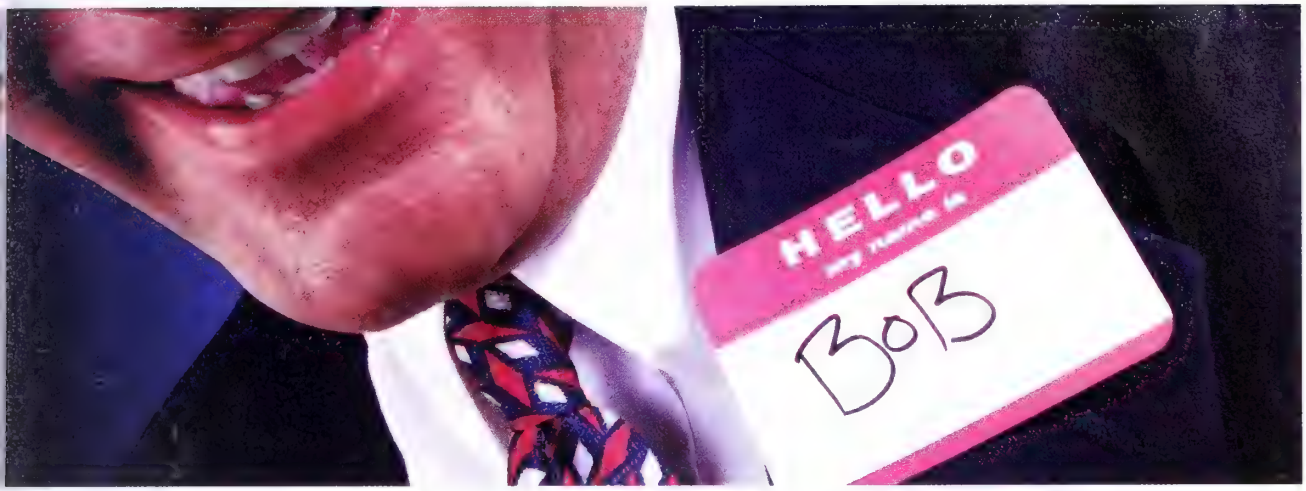
The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
458	**CARDINAL HEALTH** 655 Metro Place South, Dublin, OH 43017/614-761-8700	157	819	585
667	**CAREMARK INTERNATIONAL** 2215 Sanders Rd, Northbrook, IL 60062/708-564-4700	412	608	694
141	**CARNIVAL** 3655 NW 87th Ave, Miami, FL 33178/305-599-2600	493	173	410
245	**CAROLINA POWER & LIGHT** 411 Fayetteville St, Raleigh, NC 27601/919-546-6111	361	204	237
874	**CASCADE COMMUNS.** Five Carlisle Rd, Westford, MA 01886/508-692-2600	998	939	1000
81	**CATERPILLAR** 100 NE Adams St, Peoria, IL 61629/309-675-1000	55	58	126
849	**CBI INDUSTRIES** 800 Jorie Blvd, Oak Brook, IL 60521/708-572-7000	478	785	566
250	**CBS** 51 West 52nd St, New York, NY 10019/212-975-4321	283	217	525
596	**CENTERIOR ENERGY** 6200 Oak Tree Blvd, Independence, OH 44131/216-447-3100	414	231	202
989	**CENTEX** 3333 Lee Pkwy, Dallas, TX 75219/214-559-6500	314	500	569
748	**CENTOCOR** 200 Great Valley Pkwy, Malvern, PA 19355/610-651-6000	995	986	955
211	**CENTRAL & SOUTH WEST** 1616 Woodall Rodgers Fwy, Dallas, TX 75202/214-777-1000	287	165	191
762	**CENTRAL FIDELITY BANKS** 1021 East Cary St, Richmond, VA 23219/804-782-4000	775	474	205
999	**CENTRAL NEWSPAPERS** 135 North Pennsylvania St, Indianapolis, IN 46204/317-231-9200	849	825	905
955	**CENTURY COMMUNS.** 50 Locust Ave, New Canaan, CT 06840/203-972-2000	902	977	635
546	**CENTURY TELEPHONE** 100 Century Park Dr, Monroe, LA 71203/318-388-9000	838	519	646
597	**CERIDIAN** 8100 34th Ave South, Bloomington, MN 55425/612-853-8100	698	619	832
263	**CHAMPION INTERNATIONAL** One Champion Plaza, Stamford, CT 06921/203-358-7000	200	704	222
146	**CHASE MANHATTAN** One Chase Manhattan Plaza, New York, NY 10081/212-552-2222	91	45	13
85	**CHEMICAL BANKING** 270 Park Ave, New York, NY 10017/212-270-6000	72	40	9
948	**CHESAPEAKE** 1021 East Cary St, Richmond, VA 23219/804-697-1000	680	854	759
20	**CHEVRON** 225 Bush St, San Francisco, CA 94104/415-894-7700	13	29	63
740	**CHICAGO & NORTH WESTERN** 165 North Canal St, Chicago, IL 60606/312-559-7000	641	585	532
982	**CHIPCOM** 118 Turnpike Rd, Southborough, MA 01772/508-460-8900	935	912	976
399	**CHIRON** 4560 Horton St, Emeryville, CA 94608/510-655-8730	891	885	755
789	**CHRIS-CRAFT INDUSTRIES** 767 Fifth Ave, New York, NY 10153/212-421-0200	863	699	528
52	**CHRYSLER** 12000 Chrysler Dr, Highland Park, MI 48288/313-956-5741	11	7	42
139	**CHUBB** 15 Mountain View Rd, Warren, NJ 07059/908-903-2000	191	127	102
175	**CIGNA** 1601 Chestnut St, Philadelphia, PA 19192/215-761-1000	35	121	26
612	**CINCINNATI BELL** 201 East Fourth St, Cincinnati, OH 45202/513-397-9900	610	640	624
348	**CINCINNATI FINANCIAL** 6200 South Gilmore Rd, Fairfield, OH 45014/513-870-2000	555	319	348
264	**CINERGY** 139 East Fourth St, Cincinnati, OH 45202/513-381-2000	360	284	239
518	**CINTAS** 6800 Cintas Blvd, Mason, OH 45040/513-459-1200	827	745	892
793	**CIPSCO** 607 East Adams St, Springfield, IL 62739/217-523-3600	721	573	615
455	**CIRCUIT CITY STORES** 9950 Mayland Dr, Richmond, VA 23233/804-527-4000	209	387	512
417	**CIRCUS CIRCUS** 2880 Las Vegas Blvd South, Las Vegas, NV 89109/702-734-0410	634	416	664
798	**CIRRUS LOGIC** 3100 West Warren Ave, Fremont, CA 94538/510-623-8300	744	748	860
98	**CISCO SYSTEMS** 170 West Tasman Dr, San Jose, CA 95134/408-526-4000	547	192	683
43	**CITICORP** 399 Park Ave, New York, NY 10043/800-285-3000	17	8	2
379	**CITIZENS UTILITIES** High Ridge Park, Stamford, CT 06905/203-329-8800	734	415	428
840	**CLARK EQUIPMENT** 100 North Michigan St, South Bend, IN 46601/219-239-0100	691	708	718
623	**CLAYTON HOMES** 623 Market St, Knoxville, TN 37902/615-970-7200	774	638	830
803	**CLEAR CHANNEL** 200 Concord Plaza, San Antonio, TX 78216/210-822-2828	956	904	923
317	**CLOROX** 1221 Broadway, Oakland, CA 94612/510-271-7000	475	330	633
450	**CMS ENERGY** 330 Town Center Dr, Dearborn, MI 48126/313-436-9200	289	317	255
217	**CNA FINANCIAL** CNA Plaza, Chicago, IL 60685/312-822-5000	94	859	49
330	**COASTAL** Nine Greenway Plaza, Houston, TX 77046/713-877-1400	102	272	198
4	**COCA-COLA** One Coca-Cola Plaza NW, Atlanta, GA 30313/404-676-2121	43	13	147
363	**COCA-COLA ENTERPRISES** One Coca-Cola Plaza NW, Atlanta, GA 30313/404-676-2100	184	678	226
832	**COLEMAN** 250 North St. Francis St, Wichita, KS 67202/316-832-2653	755	865	855
91	**COLGATE-PALMOLIVE** 300 Park Ave, New York, NY 10022/212-310-2000	145	115	285
698	**COLTEC INDUSTRIES** 430 Park Ave, New York, NY 10022/212-940-0400	591	547	791
638	**COLUMBIA GAS SYSTEM** 20 Montchanin Rd, Wilmington, DE 19807/302-429-5000	364	259	266
53	**COLUMBIA/HCA HEALTHCARE** One Park Plaza, Nashville, TN 37203/615-327-9551	93	81	183
273	**COMCAST** 1500 Market St, Philadelphia, PA 19102/215-665-1700	576	980	335
835	**COMDISCO** 6111 North River Rd, Rosemont, IL 60018/708-698-3000	453	762	343
307	**COMERICA** 500 Woodward Ave, Detroit, MI 48226/313-222-4000	415	171	67
780	**COMMERCE BANCSHARES** 1000 Walnut, Kansas City, MO 64106/816-234-2000	821	537	242
96	**COMPAQ COMPUTER** 20555 State Highway 249, Houston, TX 77070/713-370-0670	96	65	284
791	**COMPASS BANCSHARES** 15 South 20th St, Birmingham, AL 35233/205-933-3000	801	520	218
94	**COMPUTER ASSOCIATES** One Computer Associates Plaza, Islandia, NY 11788/516-342-5224	410	174	459
360	**COMPUTER SCIENCES** 2100 East Grand Ave, El Segundo, CA 90245/310-615-0311	335	506	598
548	**COMPUWARE** 31440 Northwestern Hwy, Farmington Hills, MI 48334/810-737-7300	864	750	907
894	**COMSAT** 6560 Rock Springs Dr, Bethesda, MD 20817/301-214-3000	731	626	571
111	**CONAGRA** One Conagra Dr, Omaha, NE 68102/402-595-4000	21	142	170
222	**CONRAIL** 2001 Market St, Philadelphia, PA 19101/215-209-2000	281	194	235
878	**CONSECO** 11825 North Pennsylvania St, Carmel, IN 46032/317-817-6100	490	382	192
148	**CONSOLIDATED EDISON** Four Irving Place, New York, NY 10003/212-460-4600	168	83	144
885	**CONS. FREIGHTWAYS** 3240 Hillview Ave, Palo Alto, CA 94304/415-494-2900	227	730	502
294	**CONS. NATURAL GAS** 625 Liberty Ave, Pittsburgh, PA 15222/412-227-1000	345	338	309
439	**CONSOLIDATED PAPERS** 231 First Ave North, Wisconsin Rapids, WI 54495/715-422-3111	667	575	665
864	**CONSOLIDATED STORES** 300 Phillipi Rd, Columbus, OH 43228/614-278-6800	601	760	862
381	**CONTEL CELLULAR** 245 Perimeter Center Pkwy, Atlanta, GA 30346/404-804-3400	831	949	540
757	**CONTINENTAL CORP.** 180 Maiden Lane, New York, NY 10038/212-440-3000	207	999	130
215	**COOPER INDUSTRIES** First City Tower, Houston, TX 77002/713-739-5400	233	212	275
404	**COOPER TIRE & RUBBER** 701 Lima Ave, Findlay, OH 45840/419-423-1321	570	435	743
853	**CORAM HEALTHCARE** 1121 Alderman Dr, Alpharetta, GA 30202/404-442-2160	876	987	879
773	**CORDIS** 14201 NW 60th Ave, Miami Lakes, FL 33014/305-824-2000	904	821	954
221	**CORESTATES FINANCIAL** 1345 Chestnut St, Philadelphia, PA 19101/215-973-3100	405	254	73
129	**CORNING** One Riverfront Plaza, Corning, NY 14831/607-974-9000	222	218	290
588	**COUNTRYWIDE CREDIT** 155 North Lake Ave, Pasadena, CA 91109/818-304-8400	694	464	278
115	**CPC INTERNATIONAL** 700 Sylvan Ave, Englewood Cliffs, NJ 07632/201-894-4000	146	185	299
620	**CRACKER BARREL** 305 Hartmann Dr, Lebanon, TN 37088/615-444-5533	767	718	886
855	**CRANE** 100 First Stamford Place, Stamford, CT 06902/203-363-7300	518	755	740
939	**CREDIT ACCEPTANCE** 25505 West 12 Mile Rd, Southfield, MI 48034/810-353-2700	997	905	918
558	**CRESTAR FINANCIAL** 919 East Main St, Richmond, VA 23219/804-782-5000	659	366	145
857	**CROMPTON & KNOWLES** One Station Place, Stamford, CT 06902/203-353-5400	819	789	916
266	**CROWN CORK & SEAL** 9300 Ashton Rd, Philadelphia, PA 19136/215-698-5100	245	427	345
110	**CSX** 901 East Cary St, Richmond, VA 23219/804-782-1400	110	97	150
246	**CUC INTERNATIONAL** 707 Summer St, Stamford, CT 06901/203-324-9261	679	479	823
495	**CUMMINS ENGINE** 500 Jackson St, Columbus, IN 47202/812-377-5000	223	249	480
735	**CYPRESS SEMICONDUCTOR** 3901 North First St, San Jose, CA 95134/408-943-2600	892	791	880
392	**CYPRUS AMAX MINERALS** 9100 East Mineral Circle, Englewood, CO 80112/303-643-5000	372	369	315

D

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
397	**DANA** 4500 Dorr St, Toledo, OH 43615/419-535-4500	158	278	326
529	**DANAHER** 1250 24th St NW, Washington, DC 20037/202-828-0850	599	599	726
931	**DAUPHIN DEPOSIT** 213 Market St, Harrisburg, PA 17101/717-255-2121	900	673	328
194	**DAYTON HUDSON** 777 Nicollet Mall, Minneapolis, MN 55402/612-370-6948	29	155	176
673	**DEAN FOODS** 3600 North River Rd, Franklin Park, IL 60131/708-678-1680	401	613	704
138	**DEAN WITTER, DISCOVER** Two World Trade Center, New York, NY 10048/212-392-2222	210	82	76
143	**DEERE** John Deere Rd, Moline, IL 61265/309-765-8000	113	96	154
552	**DELL COMPUTER** 9505 Arboretum Blvd, Austin, TX 78759/512-338-4400	300	394	654
703	**DELMARVA POWER** 800 King St, Wilmington, DE 19899/302-429-3011	678	486	484
337	**DELTA AIR LINES** 1050 Delta Blvd, Atlanta, GA 30320/404-715-2600	79	994	181
409	**DELUXE** 1080 West County Rd F, St. Paul, MN 55126/612-483-7111	502	406	703
845	**DENTSPLY INTERNATIONAL** 570 West College Ave, York, PA 17405/717-845-7511	843	768	906
911	**DEPARTMENT 56** 6436 City West Pkwy, Eden Prairie, MN 55344/612-944-5600	952	860	970

This is one way to make a first impression.



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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
237	**DETROIT EDISON** 2000 Second Ave, Detroit, MI 48226/313-237-8000	298	161	188
408	**DIAL** 1850 North Central Ave, Phoenix, AZ 85077/602-207-4000	296	407	400
993	**DIAMOND SHAMROCK** 9830 Colonnade Blvd, San Antonio, TX 78230/210-641-6800	396	639	649
760	**DIEBOLD** 5995 Mayfair Rd, North Canton, OH 44720/216-489-4000	753	703	842
199	**DIGITAL EQUIPMENT** 111 Powdermill Rd, Maynard, MA 01754/508-493-5111	59	1000	211
322	**DILLARD DEPT. STORES** 1600 Cantrell Rd, Little Rock, AR 72202/501-376-5200	189	250	358
26	**DISNEY (WALT)** 500 South Buena Vista St, Burbank, CA 91521/818-560-1000	97	43	164
574	**DOLE FOOD** 31355 Oak Crest Dr, Westlake Village, CA 91361/818-879-6600	273	685	409
505	**DOLLAR GENERAL** 104 Woodmont Blvd, Nashville, TN 37205/615-783-2000	587	709	882
144	**DOMINION RESOURCES** 901 East Byrd St, Richmond, VA 23219/804-775-5700	241	129	151
185	**DONNELLEY (R. R.)** 77 West Wacker Dr, Chicago, IL 60601/312-326-8000	218	235	365
299	**DOVER** 280 Park Ave, New York, NY 10017/212-922-1640	336	318	556
39	**DOW CHEMICAL** 2030 Dow Center, Midland, MI 48674/517-636-1000	31	59	80
290	**DOW JONES** 200 Liberty St, New York, NY 10281/212-416-2000	451	344	514
420	**DPL** 1065 Woodman Dr, Dayton, OH 45432/513-224-6000	624	376	437
524	**DQE** 301 Grant St, Pittsburgh, PA 15279/412-393-6000	608	371	366
267	**DRESSER INDUSTRIES** 2001 Ross Ave, Dallas, TX 75201/214-740-6000	205	312	373
242	**DSC COMMUNICATIONS** 1000 Coit Rd, Plano, TX 75075/214-519-3000	675	372	702
113	**DUKE POWER** 422 South Church St, Charlotte, NC 28242/704-594-0887	242	102	162
101	**DUN & BRADSTREET** 187 Danbury Rd, Wilton, CT 06897/203-834-4200	217	104	317
10	**DUPONT** 1007 Market St, Wilmington, DE 19898/302-774-1000	12	11	60
204	**DURACELL INTERNATIONAL** Berkshire Corporate Park, Bethel, CT 06801/203-796-4000	464	294	509

E

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
585	**E-SYSTEMS** 6250 LBJ Fwy, Dallas, TX 75240/214-661-1000	460	539	684
219	**EASTMAN CHEMICAL** 100 North Eastman Rd, Kingsport, TN 37660/615-229-2000	247	188	370
45	**EASTMAN KODAK** 343 State St, Rochester, NY 14650/716-724-4000	60	120	136
254	**EATON** 1111 Superior Ave NNE, Cleveland, OH 44114/216-523-5000	181	190	352
460	**ECHLIN** 100 Double Beach Rd, Branford, CT 06405/203-481-5751	425	434	643
899	**ECKERD** 8333 Bryan Dairy Rd, Largo, FL 34647/813-399-6000	246	676	667
568	**ECOLAB** 370 North Wabasha St, St. Paul, MN 55102/612-293-2233	621	583	749
611	**EDWARDS (A. G.)** One North Jefferson Ave, St. Louis, MO 63103/314-289-3000	619	423	541
940	**EG&G** 45 William St, Wellesley, MA 02181/617-237-5100	589	970	810
743	**EL PASO NATURAL GAS** 100 North Stanton St, El Paso, TX 79901/915-541-2600	713	562	518
778	**ELECTRONIC ARTS** 1450 Fashion Island Blvd, San Mateo, CA 94404/415-571-7171	861	770	943
NR	**ELECTRONIC DATA** 3044 West Grand Blvd, Detroit, MI 48202/313-556-5000	NR	NR	NR
302	**EMC** 171 South St, Hopkinton, MA 01748/508-435-1000	575	252	691
54	**EMERSON ELECTRIC** 8000 West Florissant Ave, St. Louis, MO 63136/314-553-2000	124	71	227
997	**ENERGY SERVICE** 1445 Ross Ave, Dallas, TX 75202/214-922-1500	937	856	811
388	**ENGELHARD** 101 Wood Ave, Iselin, NJ 08830/908-205-5000	418	458	677
112	**ENRON** 1400 Smith St, Houston, TX 77002/713-853-6161	123	137	179
304	**ENRON OIL & GAS** 1400 Smith St, Houston, TX 77002/713-853-6161	825	397	597
834	**ENSERCH** 300 South St. Paul St, Dallas, TX 75201/214-651-8700	483	598	467
783	**ENSERCH EXPLORATION** 1817 Wood St, Dallas, TX 75201/214-748-1110	969	894	724
193	**ENTERGY** 639 Loyola Ave, New Orleans, LA 70113/504-529-5262	182	144	92
403	**EQUIFAX** 1600 Peachtree St NW, Atlanta, GA 30309/404-885-8000	568	454	748
313	**EQUITABLE** 787 Seventh Ave, New York, NY 10019/212-554-1234	165	195	18
769	**EQUITABLE OF IOWA** 604 Locust St, Des Moines, IA 50309/515-245-6911	795	524	244
818	**EQUITABLE RESOURCES** 420 Blvd of the Allies, Pittsburgh, PA 15219/412-261-3000	571	726	565
895	**EQUITY RESIDENTIAL** Two North Riverside Plaza, Chicago, IL 60606/312-474-1300	964	887	695
688	**ETHYL** 330 South Fourth St, Richmond, VA 23219/804-788-5000	632	527	745
962	**EXIDE** 1400 North Woodward Ave, Bloomfield Hills, MI 48304/810-258-0080	669	903	804
3	**EXXON** 225 East John W. Carpenter Fwy, Irving, TX 75062/214-444-1000	3	4	25

F

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
980	**FAMILY DOLLAR STORES** 10401 Old Monroe Rd, Matthews, NC 28105/704-847-6961	563	712	864
36	**FANNIE MAE** 3900 Wisconsin Ave NW, Washington, DC 20016/202-752-7000	33	20	1
870	**FASTENAL** 2001 Theurer Blvd, Winona, MN 55987/507-454-5374	974	911	998
279	**FEDERAL EXPRESS** 2005 Corporate Ave, Memphis, TN 38132/901-369-3600	122	244	288
80	**FEDERAL HOME LOAN** 8200 Jones Branch Dr, McLean, VA 22102/800-424-5401	156	52	17
666	**FEDERAL PAPER BOARD** 75 Chestnut Ridge Rd, Montvale, NJ 07645/201-391-1776	540	665	490
841	**FEDERAL SIGNAL** 1415 West 22nd St, Oak Brook, IL 60521/708-954-2000	784	809	894
352	**FEDERATED DEPT. STORES** Seven West Seventh St, Cincinnati, OH 45202/513-579-7000	134	332	238
998	**FERRO** 1000 Lakeside Ave, Cleveland, OH 44114/216-641-8580	627	807	803
759	**FHP INTERNATIONAL** 9900 Talbert Ave, Fountain Valley, CA 92708/714-963-7233	325	610	517
305	**FIFTH THIRD BANCORP** 38 Fountain Square Plaza, Cincinnati, OH 45263/513-579-5300	631	261	138
702	**FINA** 8350 North Central Expwy, Dallas, TX 75206/214-750-2400	306	512	503
965	**FINGERHUT** 4400 Baker Rd, Minnetonka, MN 55343/612-932-3100	471	815	753
843	**FINOVA GROUP** 1850 North Central Ave, Phoenix, AZ 85004/602-207-6900	889	705	295
859	**FIRST AMERICAN** 300 Union St, Nashville, TN 37237/615-748-2000	833	554	247
184	**FIRST BANK SYSTEM** 601 Second Ave South, Minneapolis, MN 55402/612-973-1111	461	163	83
929	**FIRST BRANDS** 83 Wooster Heights Rd, Danbury, CT 06813/203-731-2300	665	767	805
220	**FIRST CHICAGO** One First National Plaza, Chicago, IL 60670/312-732-4000	229	91	32
737	**FIRST COLONY** 901 E Byrd St, Richmond, VA 23219/804-775-0300	560	386	219
165	**FIRST DATA** 11718 Nicholas St, Omaha, NE 68154/402-222-2000	519	308	363
739	**FIRST EMPIRE STATE** One M&T Plaza, Buffalo, NY 14203/716-842-4200	743	473	200
241	**FIRST FIDELITY BANCORP.** 550 Broad St, Newark, NJ 07102/201-565-3200	406	145	62
228	**FIRST FINANCIAL MGMT.** Three Corporate Square, Atlanta, GA 30329/404-321-0120	438	375	443
884	**FIRST HAWAIIAN** 1132 Bishop St, Honolulu, HI 96813/808-525-7000	837	634	251
160	**FIRST INTERSTATE** 633 West Fifth St, Los Angeles, CA 90071/213-614-3001	261	84	36
443	**FIRST OF AMERICA BANK** 211 South Rose St, Kalamazoo, MI 49007/616-376-9000	480	295	86
669	**FIRST SECURITY** 79 South Main St, Salt Lake City, UT 84111/801-246-5000	687	408	178
629	**FIRST TENNESSEE NATL.** 165 Madison Ave, Memphis, TN 38103/901-523-4444	661	399	201
117	**FIRST UNION** One First Union Center, Charlotte, NC 28288/704-374-6161	173	60	29
454	**FIRST USA** 2001 Bryan Tower, Dallas, TX 75201/214-746-8400	701	410	282
696	**FIRST VIRGINIA BANKS** 6400 Arlington Blvd, Falls Church, VA 22042/703-241-4000	820	470	246
486	**FIRSTAR** 777 East Wisconsin Ave, Milwaukee, WI 53202/414-765-4316	616	310	134
782	**FISERV** 255 Fiserv Dr, Brookfield, WI 53045/414-879-5000	829	853	676
232	**FLEET FINANCIAL GROUP** 50 Kennedy Plaza, Providence, RI 02903/401-278-5800	256	107	46
802	**FLEET MORTGAGE GROUP** 1333 Main St, Columbia, SC 29201/803-929-7900	851	761	535
792	**FLEETWOOD ENTERPRISES** 3125 Myers St, Riverside, CA 92503/909-351-3500	381	580	697
986	**FLEMING** 6301 Waterford Blvd, Oklahoma City, OK 73118/405-840-7200	45	754	357
609	**FLIGHTSAFETY INTL.** Marine Air Terminal, La Guardia Airport, Flushing, NY 11371/718-565-410	927	648	806
332	**FLORIDA PROGRESS** One Progress Plaza, St. Petersburg, FL 33701/813-824-6400	376	293	298
247	**FLUOR** 3333 Michelson Dr, Irvine, CA 92730/714-975-2000	127	323	469
433	**FMC** 200 East Randolph Dr, Chicago, IL 60601/312-861-6000	266	358	425
358	**FOOD LION** 2110 Executive Dr, Salisbury, NC 28144/704-633-8250	141	385	499
27	**FORD MOTOR** The American Rd, Dearborn, MI 48121/313-322-3000	2	3	3
830	**FORE SYSTEMS** 174 Thorn Hill Rd, Warrendale, PA 15086/412-772-6600	996	941	999
416	**FOREST LABORATORIES** 909 Third Ave, New York, NY 10022/212-421-7850	896	543	834
708	**FOSTER WHEELER** Perryville Corporate Park, Clinton, NJ 08809/908-730-4000	436	696	559
534	**FOUNDATION HEALTH** 3400 Data Dr, Rancho Cordova, CA 95670/916-631-5000	470	933	603
865	**FOURTH FINANCIAL** 100 North Broadway, Wichita, KS 67202/316-261-4444	823	592	248
151	**FPL GROUP** 700 Universe Blvd, Juno Beach, FL 33408/305-552-3552	196	118	167
956	**FRANCHISE FINANCE** 17207 North Perimeter Dr, Scottsdale, AZ 85255/602-585-4500	990	896	867
957	**FRANKLIN QUEST** 2200 West Pkwy Blvd, Salt Lake City, UT 84119/801-975-1776	946	866	982
316	**FRANKLIN RESOURCES** 777 Mariners Island Blvd, San Mateo, CA 94404/415-312-3000	722	246	613
395	**FREEPORT-McMORAN** 1615 Poydras St, New Orleans, LA 70112/504-582-4000	467	659	371

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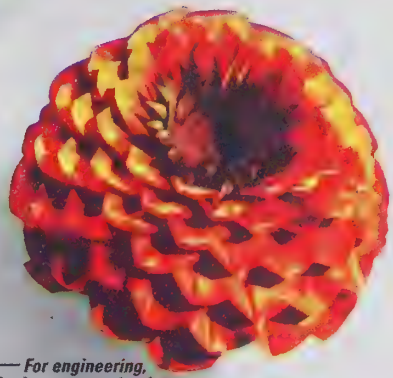

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
224	**FREEPORT-McMORAN C&G** 1615 Poydras St, New Orleans, LA 70112/504-582-4000	617	431	451
545	**FRONTIER** 180 South Clinton Ave, Rochester, NY 14646/716-777-1000	682	480	618
520	**FRUIT OF THE LOOM** 233 South Wacker Dr, Chicago, IL 60606/312-876-1724	429	729	442

G

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
121	**GANNETT** 1100 Wilson Blvd, Arlington, VA 22234/703-284-6000	275	140	406
209	**GAP (THE)** One Harrison St, San Francisco, CA 94105/415-952-4400	294	205	578
872	**GARTNER GROUP** 56 Top Gallant Rd, Stamford, CT 06904/203-964-0096	968	914	978
630	**GATEWAY 2000** 610 Gateway Dr, North Sioux City, SD 57049/605-232-2000	387	538	814
868	**GATX** 500 West Monroe St, Chicago, IL 60661/312-621-6200	636	552	411
412	**GAYLORD ENTERTAINMENT** 1 Gaylord Dr, Nashville, TN 37214/615-316-6000	776	707	751
303	**GEICO** 5260 Western Ave, Chevy Chase, MA 20815/301-986-3000	385	305	333
166	**GENENTECH** 460 Point San Bruno Blvd, South San Francisco, CA 94080/415-225-1000	741	446	620
333	**GENERAL DYNAMICS** 3190 Fairview Park Dr, Falls Church, VA 22042/703-876-3000	342	291	483
1	**GENERAL ELECTRIC** 3135 Easton Turnpike, Fairfield, CT 06431/203-373-2211	8	1	5
257	**GENERAL INSTRUMENT** 181 West Madison St, Chicago, IL 60602/312-541-5000	457	255	551
89	**GENERAL MILLS** One General Mills Blvd, Minneapolis, MN 55426/612-540-2311	129	141	301
18	**GENERAL MOTORS** 3044 West Grand Blvd, Detroit, MI 48202/313-556-5000	1	2	6
850	**GENERAL NUTRITION** 921 Penn Ave, Pittsburgh, PA 15222/412-288-4600	808	837	871
288	**GENERAL PUBLIC UTILITIES** 100 Interpace Pkwy, Parsippany, NJ 07054/201-263-6500	285	329	217
79	**GENERAL RE** 695 East Main St, Stamford, CT 06901/203-328-5000	274	95	100
536	**GENERAL SIGNAL** One High Ridge Park, Stamford, CT 06904/203-329-4100	549	508	686
821	**GENETICS INSTITUTE** 87 Cambridgepark Dr, Cambridge, MA 02140/617-876-1170	980	963	921
207	**GENUINE PARTS** 2999 Circle 75 Pkwy, Atlanta, GA 30339/404-953-1700	220	215	576
824	**GENZYME** One Kendall Square, Cambridge, MA 02139/617-252-7500	929	960	865
961	**GEON** 6100 Oak Tree Blvd, Independence, OH 44131/216-447-6000	618	744	807
664	**GEORGIA GULF** 400 Perimeter Center Terrace, Atlanta, GA 30346/404-395-4500	688	450	896
140	**GEORGIA-PACIFIC** 133 Peachtree St NE, Atlanta, GA 30303/404-652-4000	70	193	194
605	**GIANT FOOD** 6300 Sheriff Rd, Landover, MD 20785/301-341-4100	284	557	682
44	**GILLETTE** Prudential Tower Bldg, Boston, MA 02199/617-421-7000	177	88	310
928	**GLATFELTER (P. H.)** 228 South Main St, Spring Grove, PA 17362/717-225-4711	866	985	846
799	**GLENAYRE TECHNOLOGIES** 4201 Congress St, Charlotte, NC 28209/704-553-0038	972	870	960
NR	**GM HUGHES ELECTRONICS** 7200 Hughes Terrace, Los Angeles, CA 90045/310-568-7868	NR	NR	NR
418	**GOLDEN WEST FINANCIAL** 1901 Harrison St, Oakland, CA 94612/510-446-6000	474	276	70
714	**GOODRICH (B. F.)** 3925 Embassy Pkwy, Akron, OH 44333/216-374-2000	439	694	504
173	**GOODYEAR TIRE & RUBBER** 1144 East Market St, Akron, OH 44316/216-796-2121	76	116	216
233	**GRACE (W. R.)** One Town Center Rd, Boca Raton, FL 33486/407-362-2000	208	590	281
323	**GRAINGER (W. W.)** 5500 West Howard St, Skokie, IL 60077/708-982-9000	346	436	663
981	**GREAT A&P TEA** Two Paragon Dr, Montvale, NJ 07645/201-573-9700	100	991	457
238	**GREAT LAKES CHEMICAL** One Great Lakes Blvd, West Lafayette, IN 47906/317-497-6100	449	221	539
386	**GREAT WESTERN** 9200 Oakdale Ave, Chatsworth, CA 91311/818-775-3411	350	251	51
374	**GREEN TREE FINANCIAL** 345 St Peter St, St. Paul, MN 55102/612-293-3400	852	343	614
17	**GTE** One Stamford Forum, Stamford, CT 06904/203-965-2000	32	14	50
886	**GTECH HOLDINGS** 55 Technology Way, West Greenwich, RI 02817/401-392-1000	770	775	812

H

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
230	**HALLIBURTON** 500 North Akard St, Dallas, TX 75201/214-978-2600	188	348	318
879	**HANNA (M. A.)** 200 Public Square, Cleveland, OH 44114/216-589-4000	504	857	711
756	**HANNAFORD BROTHERS** 145 Pleasant Hill Rd, Scarborough, ME 04074/207-883-2911	431	713	788
341	**HARCOURT GENERAL** 27 Boylston St, Chestnut Hill, MA 02167/617-232-8200	327	510	436
459	**HARLEY-DAVIDSON** 3700 West Juneau Ave, Milwaukee, WI 53208/414-342-4680	546	507	831
631	**HARNISCHFEGER** 13400 Bishops Lane, Brookfield, WI 53005/414-671-4400	637	910	587
521	**HARRIS** 1025 West Nasa Blvd, Melbourne, FL 32919/407-727-9100	301	428	489
745	**HARSCO** 350 Poplar Church Rd, Camp Hill, PA 17011/717-763-7064	561	576	692
881	**HARTFORD STEAM BOILER** One State St, Hartford, CT 06102/203-722-1866	813	781	780
353	**HASBRO** 1027 Newport Ave, Pawtucket, RI 02861/401-431-8697	390	347	516
828	**HAWAIIAN ELECTRIC** 900 Richards St, Honolulu, HI 96813/808-543-5662	629	609	322
679	**HBO** 301 Perimeter Center North, Atlanta, GA 30346/404-393-6000	920	883	972
910	**HEALTH & RETIREMENT** 400 Centre St, Newton, MA 02158/617-332-3990	992	782	793
806	**HEALTH CARE & RETIREMENT** One Seagate, Toledo, OH 43604/419-252-5500	809	830	836
934	**HEALTH CARE PROPERTY** 10990 Wilshire Blvd, Los Angeles, CA 90024/310-473-1990	986	795	884
680	**HEALTH MANAGEMENT** 5811 Pelican Bay Blvd, Naples, FL 33963/813-598-3131	874	780	924
639	**HEALTH SYSTEMS INTL.** 21600 Oxnard St, Woodland Hills, CA 91367/818-719-6775	427	571	786
753	**HEALTHCARE COMPARE** 3200 Highland Ave, Downers Grove, IL 60515/708-241-7900	966	790	981
619	**HEALTHSOURCE** Two College Park Dr, Hooksett, NH 03106/603-268-7000	822	842	920
695	**HEALTHSOUTH** Two Perimeter Park South, Birmingham, AL 35243/205-967-7116	642	774	687
308	**HEALTHTRUST** 4525 Harding Rd, Nashville, TN 37205/615-383-4444	316	336	388
717	**HEILIG-MEYERS** 2235 Staples Mill Rd, Richmond, VA 23230/804-359-9171	650	691	721
88	**HEINZ (H. J.)** 600 Grant St, Pittsburgh, PA 15219/412-456-5700	149	122	259
189	**HERCULES** 1313 North Market St, Wilmington, DE 19894/302-594-5000	368	226	462
231	**HERSHEY FOODS** 100 Crystal A Dr, Hershey, PA 17033/717-534-6799	290	337	465
23	**HEWLETT-PACKARD** 3000 Hanover St, Palo Alto, CA 94304/415-857-1501	20	23	106
971	**HIBERNIA** 313 Carondelet St, New Orleans, LA 70130/504-533-3333	888	643	277
471	**HILLENBRAND INDUSTRIES** 700 State Route 46 East, Batesville, IN 47006/812-934-7000	536	565	481
297	**HILTON HOTELS** 9336 Civic Center Dr, Beverly Hills, CA 90210/310-278-4321	553	452	463
37	**HOME DEPOT** 2727 Paces Ferry Rd, Atlanta, GA 30339/404-433-8211	75	109	297
904	**HOME SHOPPING NETWORK** 2501 118th Ave North, St. Petersburg, FL 33716/813-572-8585	643	917	909
441	**HOMESTAKE MINING** 650 California St, San Francisco, CA 94108/415-981-8150	769	624	710
839	**HON INDUSTRIES** 414 East Third St, Muscatine, IA 52761/319-264-7400	720	766	938
214	**HONEYWELL** Honeywell Plaza, Minneapolis, MN 55408/612-951-1000	180	220	338
461	**HORMEL FOODS** One Hormel Place, Austin, MN 55912/507-437-5611	338	422	717
648	**HOSPITALITY FRANCHISE** 339 Jefferson Rd, Parsippany, NJ 07054/201-428-9700	926	773	802
540	**HOST MARRIOTT** 10400 Fernwood Rd, Bethesda, MD 20058/301-380-9000	550	969	397
234	**HOUSEHOLD INTL.** 2700 Sanders Rd, Prospect Heights, IL 60070/708-564-5000	232	176	65
210	**HOUSTON INDUSTRIES** 4400 Post Oak Pkwy, Houston, TX 77027/713-629-3000	267	151	173
519	**HUBBELL** 584 Derby-Milford Rd, Orange, CT 06477/203-799-4100	672	497	742
270	**HUMANA** 500 West Main St, Louisville, KY 40202/502-580-1000	293	353	575
969	**HUNT (J. B.)** 615 J. B. Hunt Corporate Dr, Lowell, AR 72745/501-820-0000	622	838	758
400	**HUNTINGTON BANCSHARES** Huntington Center, Columbus, OH 43287/614-480-8300	615	264	112

I

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
9	**IBM** Old Orchard Rd, Armonk, NY 10504/914-765-1900	7	9	27
581	**IBP** IBP Ave, Dakota City, NE 68731/402-494-2061	82	340	593
829	**IDAHO POWER** 1221 West Idaho St, Boise, ID 83702/208-388-2200	836	644	543
944	**IES INDUSTRIES** 200 First St SE, Cedar Rapids, IA 52401/319-398-4411	745	687	599
595	**ILLINOIS CENTRAL** 455 North Cityfront Plaza Dr, Chicago, IL 60611/312-755-7500	818	468	693
192	**ILLINOIS TOOL WORKS** 3600 West Lake Ave, Glenview, IL 60025/708-724-7500	302	222	506
523	**ILLINOVA** 500 South 27th St, Decatur, IL 62525/217-424-6600	534	352	305
614	**IMC GLOBAL** 2100 Sanders Rd, Northbrook, IL 60062/708-272-9200	505	663	482
723	**INFINITY BROADCASTING** 600 Madison Ave, New York, NY 10022/212-750-6400	925	867	876
380	**INFORMIX** 4100 Bohannon Dr, Menlo Park, CA 94025/415-926-6300	869	690	910
300	**INGERSOLL-RAND** 200 Chestnut Ridge Rd, Woodcliff Lake, NJ 07675/201-573-0123	239	303	412
653	**INLAND STEEL INDUSTRIES** 30 West Monroe St, Chicago, IL 60603/312-346-0300	240	491	427
606	**INTEGRA FINANCIAL** Four PPG Place, Pittsburgh, PA 15222/412-644-7669	660	367	149
650	**INTEGRATED DEVICE** 2975 Stender Way, Santa Clara, CA 95054/408-727-6116	903	675	895
15	**INTEL** 2200 Mission College Blvd, Santa Clara, CA 95052/408-765-8080	88	16	156
992	**INTERNATIONAL CABLETEL 1000** 150 East 58th St, New York, NY 10155/212-371-3714	968	853	
181	**INTERNATIONAL FLAVORS** 521 West 57th St, New York, NY 10019/212-765-5500	602	296	678

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Canon

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

OTHER RANKINGS

		SALES	PROFITS	ASSETS
504	INTL. GAME TECHNOLOGY	779	418	779
90	INTERNATIONAL PAPER 1 Manhattanville Rd, Purchase, NY 1[illegible]	54	157	114
369	INTERPUBLIC GROUP 1271 Ave of the Americas, New York, NY 10020/212-399-8000	466	466	453
625	INTUIT 155 Linfield Dr, Menlo Park, CA 94025/415-322-0573	945	974	947
672	IPALCO ENTERPRISES 25 Monument Circle, Indianapolis, IN 46204/317-261-8261	777	536	553
758	ITEL Two North Riverside Plaza, Chicago, IL 60606/312-902-1515	501	934	690
82	ITT 1330 Ave of the Americas, New York, NY 10019/212-258-1000	22	68	19
500	IVAX 8800 NW 36th St, Miami, FL 33178/305-590-2200	640	559	746

J

974	J&L SPECIALTY STEEL One PPG Place, Pittsburgh, PA 15222/412-338-1600	766	772	843
468	JAMES RIVER 120 Tredegar St, Richmond, VA 23219/804-644-5411	197	957	245
429	JEFFERSON SMURFIT 8182 Maryland Ave, St Louis, MO 63105/314-746-1100	323	935	478
355	JEFFERSON-PILOT 100 North Greene St, Greensboro, NC 27401/910-691-3000	603	277	286
882	JOHN NUVEEN 333 West Wacker Dr, Chicago, IL 60606/312-917-7700	951	741	944
12	JOHNSON & JOHNSON One Johnson & Johnson Plaza, New Brunswick, NJ 08933/908-524-0400	46	21	139
463	JOHNSON CONTROLS 5757 North Green Bay Ave, Glendale, WI 53209/414-228-1200	153	368	392
827	JOSTENS 5501 Norman Center Dr, Minneapolis, MN 55437/612-830-3300	737	964	889

K

589	KANSAS CITY POWER 1201 Walnut St, Kansas City, MO 64106/816-556-2200	714	504	477
561	KANSAS CITY SOUTHERN 114 West 11th St, Kansas City, MO 64105/816-556-0303	648	503	549
72	KELLOGG One Kellogg Square, Battle Creek, MI 49016/616-961-2000	163	87	355
693	KELLY SERVICES 999 West Big Beaver Rd, Troy, MI 48084/810-362-4444	421	723	858
615	KEMPER One Kemper Dr, Long Grove, IL 60049/708-320-4700	531	579	146
1000	KENNAMETAL Route 981 South, Latrobe, PA 15650/412-539-5000	709	805	827
371	KERR-McGEE Kerr-McGee Center, Oklahoma City, OK 73125/405-270-1313	312	555	407
132	KEYCORP 127 Public Square, Cleveland, OH 44114/216-689-3000	204	67	31
108	KIMBERLY-CLARK 545 East John Carpenter Fwy, Irving, TX 75062/214-830-1200	150	126	269
963	KIMCO REALTY 3333 New Hyde Park Rd, New Hyde Park, NY 11042/516-869-9000	981	840	825
641	KING WORLD PRODUCTIONS 1700 Broadway, New York, NY 10019/212-315-4000	886	627	863
627	KLA INSTRUMENTS 160 Rio Robles, San Jose, CA 95134/408-434-4200	921	864	945
168	KMART 3100 West Big Beaver Rd, Troy, MI 48084/810-643-1000	14	243	105
339	KNIGHT-RIDDER One Herald Plaza, Miami, FL 33132/305-376-3800	394	362	510
583	KOHL'S N54 W13600 Woodale Dr, Menomonee Falls, WI 53051/414-783-5800	564	710	822
338	KROGER 1014 Vine St, Cincinnati, OH 45202/513-762-4000	23	234	361
767	KU ENERGY One Quality St, Lexington, KY 40507/606-255-2100	803	622	638

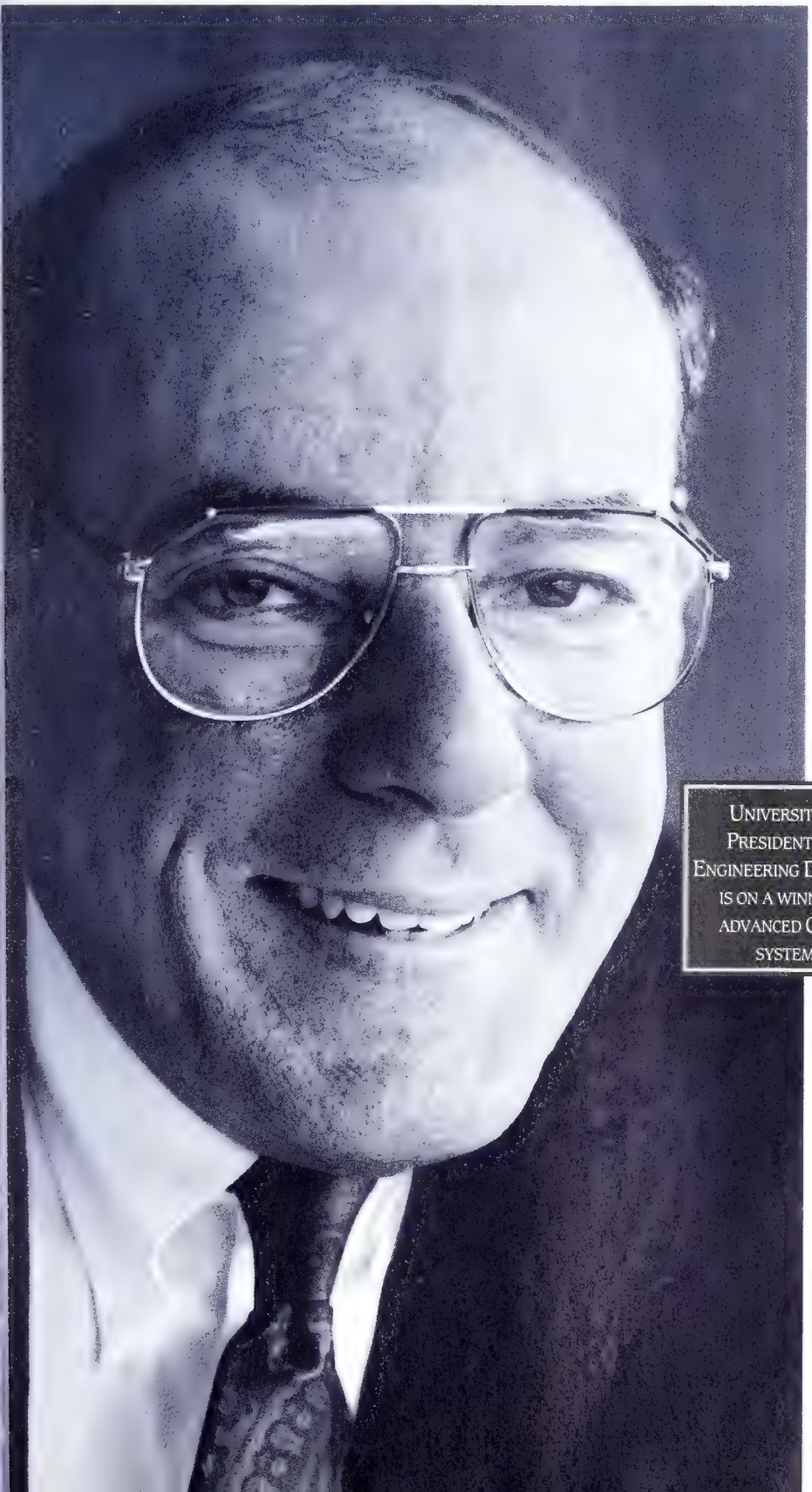
L

718	LA QUINTA INNS 112 East Pecan St, San Antonio, TX 78205/210-302-6000	911	851	797
683	LAFARGE 11130 Sunrise Valley Dr, Reston, VA 22091/703-264-3600	541	603	644
761	LAM RESEARCH 4650 Cushing Pkwy, Fremont, CA 94538/510-659-0200	810	759	885
787	LANCASTER COLONY 37 West Broad St, Columbus, OH 43215/614-224-7141	748	689	933
342	LDDS COMMUNICATIONS 515 East Amite, Jackson, MS 39201/601-360-8600	515	380	475
820	LEAR SEATING 21557 Telegraph Rd, Southfield, MI 48034/810-746-1500	329	732	708
924	LEE ENTERPRISES 215 North Main St, Davenport, IA 52801/319-383-2100	890	765	902
776	LEGENT 575 Herndon Pkwy, Herndon, VA 22070/703-708-3000	847	763	824
543	LEGGETT & PLATT One Leggett Rd, Carthage, MO 64836/417-358-8131	482	465	736
489	LEHMAN BROTHERS Three World Financial Center, New York, NY 10285/212-526-7000	382	441	12
642	LEUCADIA NATIONAL 315 Park Ave South, New York, NY 10010/212-460-1900	586	660	353
649	LG&E ENERGY 220 West Main St, Louisville, KY 40202/502-627-2000	729	711	519
38	LILLY (ELI) Lilly Corporate Center, Indianapolis, IN 46285/317-276-2000	190	46	141
154	LIMITED (THE) Three Limited Pkwy, Columbus, OH 43230/614-479-7000	152	146	360
142	LIN BROADCASTING 5400 Carillon Point, Kirkland, WA 98033/206-828-1902	710	117	445
970	LINCARE HOLDINGS 19337 U S 19 North, Clearwater, FL 34624/813-530-7700	955	849	986
235	LINCOLN NATIONAL 1300 South Clinton St, Fort Wayne, IN 46802/219-455-2000	155	181	43
472	LINEAR TECHNOLOGY 1630 McCarthy Blvd, Milpitas, CA 95035/408-432-1900	948	679	957
544	LITTON INDUSTRIES 21240 Burbank Blvd, Woodland Hills, CA 91367/818-598-5000	309	746	521
663	LIZ CLAIBORNE 1441 Broadway, New York, NY 10018/212-354-4900	444	595	706
202	LOCKHEED 4500 Park Granada Blvd, Calabasas, CA 91399/818-876-2000	66	147	220
551	LOCTITE Ten Columbus Blvd, Hartford, CT 06106/203-520-5000	772	596	840
170	LOEWS 667 Madison Ave, New York, NY 10021/212-545-2000	61	236	41
907	LONE STAR STEAKHOUSE 224 East Douglas, Wichita, KS 67202/316-264-8899	959	888	989
494	LONG ISLAND LIGHTING 175 East Old Country Rd, Hicksville, NY 11801/516-755-6650	339	209	157
846	LONGVIEW FIBRE End of Fibre Way, Longview, WA 98632/206-425-1550	718	801	747
293	LORAL 600 Third Ave, New York, NY 10016/212-697-1105	195	223	337
470	LOTUS DEVELOPMENT 55 Cambridge Pkwy, Cambridge, MA 02142/617-577-8500	685	965	782
713	LOUISIANA LAND 909 Poydras St, New Orleans, LA 70112/504-566-6500	738	993	668
315	LOUISIANA-PACIFIC 111 SW Fifth Ave, Portland, OR 97204/503-221-0800	344	183	479
182	LOWE'S Hwy 268 East, North Wilkesboro, NC 28659/910-651-4000	176	290	446
319	LSI LOGIC 1551 McCarthy Blvd, Milpitas, CA 95035/408-433-8000	705	484	700
550	LTV 25 West Prospect Ave, Cleveland, OH 44115/216-622-5000	238	439	304
430	LUBRIZOL 29400 Lakeland Blvd, Wickliffe, OH 44092/216-943-4200	532	354	679
487	LYONDELL PETROCHEMICAL 1221 McKinney St, Houston, TX 77010/713-652-7200	272	292	639

M

991	MAGMA COPPER 7400 North Oracle Rd, Tucson, AZ 85704/602-575-5500	706	574	675
389	MALLINCKRODT GROUP 7733 Forsyth Blvd, St. Louis, MO 63105/314-854-5200	458	476	496
506	MANOR CARE 10750 Columbia Pike, Silver Spring, MD 20901/301-681-9400	607	572	707
432	MANPOWER 5301 North Ironwood Rd, Milwaukee, WI 53217/414-961-1000	250	586	715
732	MANVILLE 717 17th St, Denver, CO 80202/303-978-2000	403	695	398
549	MAPCO 1800 South Baltimore Ave, Tulsa, OK 74119/918-581-1800	341	615	542
134	MARION MERRELL DOW 9300 Ward Pkwy, Kansas City, MO 64114/816-966-4000	340	152	385
749	MARK IV INDUSTRIES 501 John James Audubon Pkwy, Amherst, NY 14228/716-689-4972	567	715	607
269	MARRIOTT INTERNATIONAL 10400 Fernwood Rd, Bethesda, MD 20058/301-380-3000	130	321	438
159	MARSH & McLENNAN 1166 Ave of the Americas, New York, NY 10036/212-345-5000	304	172	394
474	MARSHALL & ILSLEY 770 North Water St, Milwaukee, WI 53202/414-765-7700	630	544	168
216	MARTIN MARIETTA 6801 Rockledge Dr, Bethesda, MD 20817/301-897-6000	107	103	224
889	MARTIN MARIETTA MATERIALS 2710 Wycliff Rd, Raleigh, NC 27607/919-781-4550	850	740	870
569	MARVEL ENTERTAINMENT 387 Park Ave South, New York, NY 10016/212-696-0808	846	717	813
248	MASCO 21001 Van Born Rd, Taylor, MI 48180/313-274-7400	244	327	372
198	MATTEL 333 Continental Blvd, El Segundo, CA 90245/310-252-2000	326	245	507
816	MAXIM INTEGRATED 120 San Gabriel Dr, Sunnyvale, CA 94086/408-737-7600	960	876	984
95	MAY DEPARTMENT STORES 611 Olive St, St Louis, MO 63101/314-342-6300	77	77	212
517	MAYTAG 403 West Fourth St North, Newton, IA 50208/515-792-8000	310	389	498
375	MBIA 113 King St, Armonk, NY 10504/914-273-4545	881	241	319
253	MBNA 400 Christiana Rd, Newark, DE 19713/800-441-7048	514	258	208
514	McCORMICK 18 Loveton Circle, Sparks, MD 21152/410-771-7301	508	721	657
582	McDERMOTT INTL. 1450 Poydras St, New Orleans, LA 70112/504-587-5400	352	833	383
33	McDONALD'S One McDonald's Plaza, Oak Brook, IL 60521/708-575-3000	133	42	152
145	McDONNELL DOUGLAS J S McDonnell Blvd & Airport Rd, Berkeley, MO 63134/314-232-0232	64	110	175
286	McGRAW-HILL 1221 Ave of the Americas, New York, NY 10020/212-512-2000	378	314	458
60	MCI COMMUNICATIONS 1801 Pennsylvania Ave NW, Washington, DC 20006/202-872-1600	62	73	125
553	McKESSON One Post St, San Francisco, CA 94104/415-983-8300	67	992	419
738	MCN 500 Griswold St, Detroit, MI 48226/313-256-5500	545	606	527
310	MEAD Courthouse Plaza NE, Dayton, OH 45463/513-495-6323	237	563	339
935	MEDAPHIS 2700 Cumberland Pkwy, Atlanta, GA 30339/404-319-3300	939	918	939
913	MEDIA GENERAL 333 East Grace St, Richmond, VA 23219/804-649-6000	807	462	808
660	MEDITRUST 197 First Ave, Needham Heights, MA 02194/617-433-6000	971	607	653
136	MEDTRONIC 7000 Central Ave NE, Minneapolis, MN 55432/612-574-4000	527	227	626
171	MELLON BANK One Mellon Bank Center, Pittsburgh, PA 15258/412-234-5000	270	154	59

Software Coach.



UNIVERSITY OF MIAMI VICE PRESIDENT AND COLLEGE OF ENGINEERING DEAN, LEW TEMARES, IS ON A WINNING STREAK WITH ADVANCED CA DATABASE AND SYSTEMS SOFTWARE.

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COMPUTER ASSOCIATES

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
296	**MELVILLE** One Theall Rd, Rye, NY 10580/914-925-4000	90	207	347
562	**MERCANTILE BANCORP.** 721 Locust St, St. Louis, MO 63101/314-425-2525	668	374	174
819	**MERCANTILE BANKSHARES** Two Hopkins Plaza, Baltimore, MD 21201/410-237-5900	871	577	303
577	**MERCANTILE STORES** 9450 Seward Rd, Fairfield, OH 45014/513-881-8000	366	505	560
6	**MERCK** One Merck Dr, White House Station, NJ 08889/908-423-1000	53	10	94
502	**MERCURY FINANCE** 40 South Skokie Blvd, Northbrook, IL 60062/708-564-3720	944	600	733
892	**MERCURY GENERAL** 4484 Wilshire Blvd, Los Angeles, CA 90010/213-937-1060	832	641	787
527	**MERIDIAN BANCORP** 35 North Sixth St, Reading, PA 19601/610-655-2000	612	373	137
126	**MERRILL LYNCH** 250 Vesey St, New York, NY 10281/212-449-1000	37	53	10
896	**MEYER (FRED)** 3800 SE 22nd Ave, Portland, OR 97202/503-232-8844	332	880	651
421	**MFS COMMUNICATIONS** 3555 Farnam St, Omaha, NE 68131/402-271-2890	934	989	666
423	**MGIC INVESTMENT** 250 East Kilbourn Ave, Milwaukee, WI 53202/414-347-6480	859	392	670
632	**MGM GRAND** 3799 Las Vegas Blvd South, Las Vegas, NV 89109/702-891-3333	758	654	725
624	**MICHIGAN NATIONAL** 27777 Inkster Rd, Farmington Hills, MI 48334/810-473-3000	703	288	229
945	**MICRO WAREHOUSE** 535 Connecticut Ave, Norwalk, CT 06854/203-899-4000	747	884	979
938	**MICROCHIP TECHNOLOGY** 2355 West Chandler Blvd, Chandler, AZ 85224/602-786-7200	961	872	974
150	**MICRON TECHNOLOGY** 2805 East Columbia Rd, Boise, ID 83706/208-368-4000	485	132	605
11	**MICROSOFT** One Microsoft Way, Redmond, WA 98052/206-882-8080	203	38	292
837	**MID ATLANTIC MEDICAL** Four Taft Court, Rockville, MD 20850/301-294-5140	756	764	968
557	**MIDLANTIC** 499 Thornall St, Edison, NJ 08837/908-321-8000	663	219	155
930	**MIDWEST RESOURCES** 666 Grand Ave, Des Moines, IA 50306/515-242-4300	657	628	493
677	**MILLIPORE** 80 Ashby Rd, Bedford, MA 01730/617-275-9200	853	733	891
34	**MINNESOTA MINING & MFG.** 3M Center, St. Paul, MN 55144/612-733-1110	51	37	153
925	**MINNESOTA POWER** 30 West Superior St, Duluth, MN 55802/218-722-2641	802	719	604
431	**MIRAGE RESORTS** 3400 Las Vegas Blvd South, Las Vegas, NV 89109/702-791-7111	604	444	647
908	**MITCHELL ENERGY** 2001 Timberloch Place, The Woodlands, TX 77380/713-377-5500	717	895	520
13	**MOBIL** 3225 Gallows Rd, Fairfax, VA 22037/703-846-3000	6	26	52
937	**MOBILE TELECOMMS.** 200 South Lamar St, Jackson, MS 39201/601-944-1300	977	962	828
814	**MODINE MFG.** 1500 De Koven Ave, Racine, WI 53403/414-636-1200	716	731	883
362	**MOLEX** 2222 Wellington Court, Lisle, IL 60532/708-969-4550	664	492	714
97	**MONSANTO** 800 North Lindbergh Blvd, St. Louis, MO 63167/314-694-1000	137	105	223
658	**MONTANA POWER** 40 East Broadway, Butte, MT 59701/406-723-5421	674	469	497
71	**MORGAN (J. P.)** 60 Wall St, New York, NY 10260/212-483-2323	131	44	11
190	**MORGAN STANLEY GROUP** 1251 Ave of the Americas, New York, NY 10020/212-703-4000	114	167	14
854	**MORRISON RESTAURANTS** 4721 Morrison Dr, Mobile, AL 36609/205-344-3000	645	720	913
225	**MORTON INTERNATIONAL** 100 North Riverside Plaza, Chicago, IL 60606/312-807-2000	331	238	486
14	**MOTOROLA** 1303 East Algonquin Rd, Schaumburg, IL 60196/708-576-5000	25	30	116
600	**MULTIMEDIA** 305 South Main St, Greenville, SC 29601/803-298-4100	805	556	833
479	**MURPHY OIL** 200 Peach St, El Dorado, AR 71730/501-862-6411	496	496	523
393	**MYLAN LABORATORIES** 130 17th St, Pittsburgh, PA 15222/412-232-0100	915	501	897

N

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
405	**NALCO CHEMICAL** One Nalco Center, Naperville, IL 60563/708-305-1000	588	532	701
239	**NATIONAL CITY** 1900 East Ninth St, Cleveland, OH 44114/216-575-2000	373	158	69
790	**NATIONAL FUEL GAS** Ten Lafayette Square, Buffalo, NY 14203/716-857-7000	646	605	562
796	**NATIONAL GYPSUM** 2001 Rexford Rd, Charlotte, NC 28211/704-365-7300	804	593	869
707	**NATIONAL HEALTH LABS.** 4225 Executive Square, La Jolla, CA 92037/619-550-0600	712	877	750
452	**NATIONAL SEMICONDUCTOR** 2900 Semiconductor Dr, Santa Clara, CA 95052/408-721-5000	430	228	608
634	**NATIONAL SERVICE INDS.** 1420 Peachtree St NE, Atlanta, GA 30309/404-853-1000	476	582	729
58	**NATIONSBANK** 100 North Tryon St, Charlotte, NC 28255/704-386-5000	68	27	8
754	**NAVISTAR INTERNATIONAL** 455 North Cityfront Plaza Dr, Chicago, IL 60611/312-836-2000	201	513	344
195	**NBD BANCORP** 611 Woodward Ave, Detroit, MI 48226/313-225-1000	307	123	45
863	**NEVADA POWER** 6226 West Sahara Ave, Las Vegas, NV 89102/702-367-5000	751	597	586
435	**NEW ENGLAND ELECTRIC** 25 Research Dr, Westborough, MA 01582/508-366-9011	435	309	334
733	**NEW PLAN REALTY TRUST** 1120 Ave of the Americas, New York, NY 10036/212-869-3000	985	757	845
755	**NEW WORLD COMMUNS.** 3200 Windy Hill Rd, Atlanta, GA 30339/404-955-0045	909	975	637
575	**NEW YORK STATE E&G** 4500 Vestal Pkwy East, Binghamton, NY 13902/607-729-2551	477	331	323
436	**NEW YORK TIMES** 229 West 43rd St, New York, NY 10036/212-556-1234	422	300	439
272	**NEWELL** 29 East Stephenson St, Freeport, IL 61032/815-235-4171	454	325	501
298	**NEWMONT GOLD** 1700 Lincoln St, Denver, CO 80203/303-863-7414	817	589	640
321	**NEWMONT MINING** 1700 Lincoln St, Denver, CO 80203/303-863-7414	816	637	641
670	**NEXTEL COMMUNICATIONS** 201 Route 17 North, Rutherford, NJ 07070/201-438-1400	991	984	472
444	**NIAGARA MOHAWK POWER** 300 Erie Blvd West, Syracuse, NY 13202/315-474-1511	258	351	209
654	**NICOR** 1844 Ferry Rd, Naperville, IL 60563/708-305-9500	530	482	534
188	**NIKE** One Bowerman Dr, Beaverton, OR 97005/503-671-6453	262	197	495
813	**NINE WEST GROUP** Nine West Broad St, Stamford, CT 06902/203-324-7567	793	702	958
465	**NIPSCO INDUSTRIES** 5265 Hohman Ave, Hammond, IN 46320/219-853-5200	513	357	390
657	**NOBLE AFFILIATES** 110 West Broadway, Ardmore, OK 73401/405-223-4110	914	946	766
786	**NORDSON** 28601 Clemens Rd, Westlake, OH 44145/216-892-1580	842	803	930
289	**NORDSTROM** 1501 Fifth Ave, Seattle, WA 98101/206-628-2111	271	315	500
99	**NORFOLK SOUTHERN** Three Commercial Place, Norfolk, VA 23510/804-629-2600	235	94	195
346	**NORTHEAST UTILITIES** 107 Selden St, Berlin, CT 06037/203-665-5000	286	191	196
328	**NORTHERN STATES POWER** 414 Nicollet Mall, Minneapolis, MN 55401/612-330-5500	408	263	293
507	**NORTHERN TRUST** 50 South La Salle St, Chicago, IL 60675/312-630-6000	558	342	110
427	**NORTHROP GRUMMAN** 1840 Century Park East, Los Angeles, CA 90067/310-553-6262	160	862	289
456	**NORTHWEST AIRLINES** 2700 Lone Oak Pkwy, Eagan, MN 55121/612-726-2111	119	211	236
114	**NORWEST** Sixth St & Marquette Ave, Minneapolis, MN 55479/612-667-1234	179	72	35
122	**NOVELL** 122 East 1700 South, Provo, UT 34606/801-429-7000	462	326	572
891	**NOVELLUS SYSTEMS** 81 Vista Montana, San Jose, CA 95134/408-943-9700	950	817	966
203	**NUCOR** 2100 Rexford Rd, Charlotte, NC 28211/704-366-7000	353	283	568
48	**NYNEX** 1113 Westchester Ave, White Plains, NY 10604/914-644-6000	63	75	72

O

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
155	**OCCIDENTAL PETROLEUM** 10889 Wilshire Blvd, Los Angeles, CA 90024/310-208-8800	116	973	119
283	**OFFICE DEPOT** 2200 Old Germantown Rd, Delray Beach, FL 33445/407-278-4800	253	502	583
838	**OGDEN** Two Pennsylvania Plaza, New York, NY 10121/212-868-6000	450	686	424
687	**OHIO CASUALTY** 136 North Third St, Hamilton, OH 45025/513-867-3000	542	567	404
314	**OHIO EDISON** 76 South Main St, Akron, OH 44308/216-384-5151	420	206	221
603	**OKLAHOMA G&E** 101 North Robinson, Oklahoma City, OK 73102/405-272-3000	583	448	474
652	**OLD KENT FINANCIAL** One Vandenberg Center, Grand Rapids, MI 49503/616-771-5000	711	417	199
984	**OLD NATIONAL BANCORP** 420 Main St, Evansville, IN 47708/812-464-1434	933	816	380
655	**OLD REPUBLIC INTL.** 307 North Michigan Ave, Chicago, IL 60601/312-346-8100	511	390	280
742	**OLIN** 120 Long Ridge Rd, Stamford, CT 06904/203-356-2000	393	553	564
604	**OLSTEN** 175 Broad Hollow Rd, Melville, NY 11747/516-844-7800	433	672	821
484	**OMNICOM GROUP** 437 Madison Ave, New York, NY 10022/212-415-3600	499	488	508
62	**ORACLE SYSTEMS** 500 Oracle Pkwy, Redwood Shores, CA 94065/415-506-7000	419	187	621
722	**ORYX ENERGY** 13155 Noel Rd, Dallas, TX 75240/214-715-4000	655	979	426
724	**OUTBACK STEAKHOUSE** 550 North Reo St, Tampa, FL 33609/813-282-1225	875	846	975
905	**OVERSEAS SHIPHOLDING** 1114 Ave of the Americas, New York, NY 10036/212-869-1222	913	953	591
586	**OWENS-CORNING** Fiberglas Tower, Toledo, OH 43659/419-248-8000	313	651	434
671	**OWENS-ILLINOIS** One Seagate, Toledo, OH 43666/419-247-5000	295	621	311
593	**OXFORD HEALTH PLANS** 800 Connecticut Ave, Norwalk, CT 06854/203-852-1442	763	886	952

P

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
532	**PACCAR** 777 106th Ave NE, Bellevue, WA 98004/206-455-7400	251	313	391
469	**PACIFIC ENTERPRISES** 633 West Fifth St, Los Angeles, CA 90071/213-895-5000	391	339	312
76	**PACIFIC GAS & ELECTRIC** 77 Beale St, San Francisco, CA 94106/415-973-7000	98	54	78
668	**PACIFIC TELECOM** 805 Broadway, Vancouver, WA 98660/206-905-5800	771	601	673
67	**PACIFIC TELESIS GROUP** 130 Kearny St, San Francisco, CA 94108/415-394-3000	117	48	107

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THE BUSINESS WEEK 1000

The number to the left of the company's name identifies its rank in market value among the Business Week 1000. For explanation of other rankings, see page 150.

MKT RANK	COMPANY	OTHER RANKINGS SALES	PROFITS	ASSETS
483	**PACIFICARE HEALTH** [illegible] CA 90620/714-9[illegible]	334	558	723
178	**PACIFICORP** 700 NE Multnomah Portland, OR 97232/[illegible]	299	138	182
538	**PAGING NETWORK** 4965 Preston Park Blvd, Plano, TX 75093/214-985-4100	858	961	826
528	**PAINEWEBBER GROUP** 1285 Ave of the Americas, New York, NY 10019/212-713-2000	269	873	61
407	**PALL** 2200 Northern Blvd, East Hills, NY 11548/516-484-5400	765	516	767
301	**PANHANDLE EASTERN** 5400 Westheimer Ct, Houston, TX 77056/713-627-5400	234	286	252
424	**PARAMETRIC TECHNOLOGY** 128 Technology Dr, Waltham, MA 02154/617-398-5000	936	666	953
411	**PARKER HANNIFIN** 17325 Euclid Ave, Cleveland, OH 44112/216-531-3000	365	495	561
678	**PAYCHEX** 911 Panorama Trail South, Rochester, NY 14625/716-385-6666	942	869	994
164	**PECO ENERGY** 2301 Market St, Philadelphia, PA 19101/215-841-4000	264	153	135
87	**PENNEY (J. C.)** 6501 Legacy Dr, Plano, TX 75024/214-431-1000	30	50	127
311	**PENNSYLVANIA POWER** Two North Ninth St, Allentown, PA 18101/610-774-5151	383	262	213
426	**PENNZOIL** 700 Milam St, Houston, TX 77002/713-546-4000	402	995	349
947	**PENTAIR** 1500 County Rd B2 West, St Paul, MN 55113/612-636-7920	521	771	699
852	**PEOPLES ENERGY** 130 East Randolph Dr, Chicago, IL 60601/312-240-4000	623	728	595
909	**PEOPLESOFT** 4440 Rosewood Dr, Pleasanton, CA 94588/510-225-3000	983	928	991
467	**PEP BOYS** 3111 West Allegheny Ave, Philadelphia, PA 19132/215-229-9000	580	629	705
21	**PEPSICO** 700 Anderson Hill Rd, Purchase, NY 10577/914-253-2000	18	25	85
684	**PERKIN-ELMER** 761 Main Ave, Norwalk, CT 06859/203-762-1000	666	671	796
770	**PERRIGO** 515 Eastern Ave, Allegan, MI 49010/616-673-8451	782	779	898
373	**PET** 400 South Fourth St, St Louis, MO 63102/314-622-7700	537	471	720
815	**PETRIE STORES** 70 Enterprise Ave, Secaucus, NJ 07094/201-866-3600	885	956	631
797	**PETSMART** 10000 North 31st Ave, Phoenix, AZ 85051/602-944-7070	844	947	941
29	**PFIZER** 235 East 42nd St, New York, NY 10017/212-573-2323	136	39	203
261	**PHELPS DODGE** 2600 North Central Ave, Phoenix, AZ 85004/602-234-8100	318	230	382
7	**PHILIP MORRIS** 120 Park Ave, New York, NY 10017/212-880-5000	10	5	39
102	**PHILLIPS PETROLEUM** Fourth & Keeler Sts, Bartlesville, OK 74004/918-661-6600	78	135	186
880	**PHYSICIAN CORP.** 5825 Blue Lagoon Dr, Miami, FL 33126/305-267-6633	736	778	848
497	**PINNACLE WEST CAPITAL** 400 East Van Buren St, Phoenix, AZ 85004/602-379-2500	509	282	261
345	**PIONEER HI-BRED INTL.** 400 Locust St, Des Moines, IA 50309/515-248-4800	557	306	662
180	**PITNEY BOWES** One Elm Croft Rd, Stamford, CT 06926/203-356-5000	321	182	254
777	**PITTSTON SERVICES GROUP** 100 First Stamford Place, Stamford, CT 06902/203-978-5200	481	611	771
162	**PNC BANK** 5th Ave & Wood St, Pittsburgh, PA 15265/412-762-2000	224	108	33
903	**POLARIS INDUSTRIES** 1225 Hwy 169 North, Minneapolis, MN 55441/612-542-0500	761	697	964
608	**POLAROID** 549 Technology Square, Cambridge, MA 02139/617-386-2000	426	461	533
877	**POLICY MGMT. SYSTEMS** I-77 & U.S. 21 North, Blythewood, SC 29016/803-735-4000	855	955	893
781	**PORTLAND GENERAL** 121 SW Salmon St, Portland, OR 97204/503-464-8820	686	509	416
665	**POTLATCH** One Maritime Plaza, San Francisco, CA 94111/415-576-8800	559	800	555
413	**POTOMAC ELECTRIC POWER** 1900 Pennsylvania Ave NW, Washington, DC 20068/202-872-2000	492	281	265
123	**PPG INDUSTRIES** One PPG Place, Pittsburgh, PA 15272/412-434-3131	171	130	327
318	**PRAXAIR** 39 Old Ridgebury Rd, Danbury, CT 06810/203-837-2000	386	316	418
356	**PREMARK INTERNATIONAL** 1717 Deerfield Rd, Deerfield, IL 60015/708-405-6000	303	285	530
464	**PREMIER INDUSTRIAL** 4500 Euclid Ave, Cleveland, OH 44103/216-391-8300	746	517	890
847	**PRICE (T. ROWE)** 100 East Pratt St, Baltimore, MD 21202/410-547-2000	905	722	956
334	**PRICE/COSTCO** 10809 120th Ave NE, Kirkland, WA 98033/206-803-8100	40	324	341
8	**PROCTER & GAMBLE** One Procter & Gamble Plaza, Cincinnati, OH 45202/513-983-1100	16	15	79
354	**PROGRESSIVE** 6300 Wilson Mills Rd, Mayfield Village, OH 44143/216-461-5000	416	225	354
278	**PROMUS** 1023 Cherry Rd, Memphis, TN 38117/901-762-8600	535	419	582
897	**PROPERTY TRUST** 7777 Market Center Ave, El Paso, TX 79912/915-877-3900	967	811	696
766	**PROVIDENT LIFE** One Fountain Square, Chattanooga, TN 37402/615-755-1011	377	421	120
292	**PROVIDIAN** 400 West Market St, Louisville, KY 40202/502-560-2000	348	210	89
492	**PS OF COLORADO** 1225 17th St, Denver, CO 80202/303-571-7511	455	364	378
131	**PUBLIC SERVICE ENT.** 80 Park Plaza, Newark, NJ 07101/201-430-7000	185	86	124
617	**PUGET SOUND POWER** 411 108th Ave NE, Bellevue, WA 98004/206-454-6363	628	456	422
918	**PYXIS** 9380 Carroll Park Dr, San Diego, CA 92121/619-625-3300	978	863	983

Q

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
223	**QUAKER OATS** 321 North Clark St, Chicago, IL 60610/312-222-7111	174	328	329
579	**QUALCOMM** 6455 Lusk Blvd, San Diego, CA 92121/619-587-1121	930	926	942
711	**QUESTAR** 180 East First South St, Salt Lake City, UT 84111/801-534-5000	789	798	658
862	**QUORUM HEALTH GROUP** 155 Franklin Rd, Brentwood, TN 37027/615-371-7979	750	806	844

R

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
890	**RALCORP** 901 Chouteau Ave, St Louis, MO 63102/314-982-5900	677	769	829
197	**RALSTON PURINA GROUP** Checkerboard Square, St Louis, MO 63164/314-982-1000	186	274	399
525	**RAYCHEM** 300 Constitution Dr, Menlo Park, CA 94025/415-361-3333	554	972	680
869	**RAYONIER** 1177 Summer St, Stamford, CT 06905/203-348-7000	656	674	661
92	**RAYTHEON** 141 Spring St, Lexington, MA 02173/617-862-6600	104	111	257
983	**READ-RITE** 345 Los Coches St, Milpitas, CA 95035/408-262-6700	762	832	839
186	**READER'S DIGEST** Reader's Digest Rd, Pleasantville, NY 10570/914-238-1000	359	307	537
335	**REEBOK INTERNATIONAL** 100 Technology Center Dr, Stoughton, MA 02072/617-341-5000	320	248	645
587	**REGIONS FINANCIAL** 417 North 20th St, Birmingham, AL 35202/205-326-7100	702	400	163
662	**RELIASTAR FINANCIAL** 20 Washington Ave South, Minneapolis, MN 55401/612-372-5432	539	489	204
367	**REPUBLIC NEW YORK** 452 Fifth Ave, New York, NY 10018/212-525-5000	424	186	55
681	**REVCO D. S.** 1925 Enterprise Pkwy, Twinsburg, OH 44087/216-425-9811	328	822	529
719	**REYNOLDS & REYNOLDS** 115 South Ludlow St, Dayton, OH 45402/513-443-2000	733	669	850
324	**REYNOLDS METALS** 6601 West Broad St, Richmond, VA 23230/804-281-2000	183	453	258
176	**RHONE-POULENC RORER** 500 Arcola Rd, Collegeville, PA 19426/610-454-8000	255	180	376
453	**RITE AID** 30 Hunter Lane, Camp Hill, PA 17011/717-761-2633	254	839	548
746	**RIVERWOOD INTL.** 3350 Cumberland Circle, Atlanta, GA 30339/404-644-3000	600	937	544
120	**RJR NABISCO HOLDINGS** 1301 Ave of the Americas, New York, NY 10019/212-258-5600	48	78	71
438	**ROADWAY SERVICES** 1077 Gorge Blvd, Akron, OH 44309/216-384-8184	236	908	577
972	**ROBERTS PHARMACEUTICAL** Four Industrial Way West, Eatontown, NJ 07724/908-389-1182	984	915	950
914	**ROCHESTER G&E** 89 East Ave, Rochester, NY 14649/716-546-2700	676	649	505
107	**ROCKWELL INTERNATIONAL** 2201 Seal Beach Blvd, Seal Beach, CA 90740/310-797-3311	92	98	177
268	**ROHM & HAAS** 100 Independence Mall West, Philadelphia, PA 19106/215-592-300	297	240	393
856	**ROLLINS** 2170 Piedmont Rd NE, Atlanta, GA 30324/404-888-2000	811	797	959
833	**ROUSE** 10275 Little Patuxent Pkwy, Columbia, MD 21044/410-992-6000	787	942	464
556	**ROYAL CARIBBEAN CRUISES** 1050 Caribbean Way, Miami, FL 33132/305-539-6000	633	403	592
774	**RPM** 2628 Pearl Rd, Medina, OH 44258/216-273-5090	700	747	765
191	**RUBBERMAID** 1147 Akron Rd, Wooster, OH 44691/216-264-6464	441	279	630
691	**RUSSELL** 755 Lee St, Alexander City, AL 35010/205-329-4000	647	617	728
661	**RUST INTERNATIONAL** 100 Corporate Pkwy, Birmingham, AL 35242/205-995-7878	510	756	609
509	**RYDER SYSTEM** 3600 NW 82nd Ave, Miami, FL 33166/305-593-3726	226	384	340

S

MKT RANK	COMPANY	SALES	PROFITS	ASSETS
291	**SAFECO** 4333 Brooklyn Ave NE, Seattle, WA 98185/206-545-5000	282	202	128
825	**SAFETY-KLEEN** 1000 North Randall Rd, Elgin, IL 60123/708-697-8460	742	794	752
274	**SAFEWAY** 201 Fourth St, Oakland, CA 94660/510-891-3000	47	253	330
359	**SALLIE MAE** 1050 Thomas Jefferson St NW, Washington, DC 20007/202-333-80	343	164	38
265	**SALOMON** Seven World Trade Center, New York, NY 10048/212-783-7000	170	997	[illegible]
385	**SAN DIEGO GAS & ELECTRIC** 101 Ash St, San Diego, CA 92101/619-696-2000	468	402	356
923	**SANTA FE ENERGY** 1616 South Voss, Houston, TX 77057/713-507-5000	901	919	737
249	**SANTA FE PACIFIC** 1700 East Golf Rd, Schaumburg, IL 60173/708-995-6000	389	322	306
601	**SANTA FE PACIFIC GOLD** 6200 Uptown Blvd NE, Albuquerque, NM 87110/505-880-5300	907	749	795
68	**SARA LEE** Three First National Plaza, Chicago, IL 60602/312-726-2600	41	242	180
30	**SBC COMMUNICATIONS** 175 East Houston, San Antonio, TX 78205/210-821-4105	86	28	87
445	**SCANA** 1426 Main St, Columbia, SC 29201/803-748-3000	594	378	369
128	**SCECORP** 2244 Walnut Grove Ave, Rosemead, CA 91770/818-302-1212	132	85	9[illegible]

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Rank	Company	Sales	Profits	Assets
765	**SCHERER (R. P.)** 2075 West Big Beaver Rd, Troy, MI 48084 [illegible]	848	843	851
57	**SCHERING-PLOUGH** One Jackson Farms, Madison, NJ [illegible]	230	61	367
59	**SCHLUMBERGER** 277 Park Ave, New York, NY 10172/212-350-9400	162	125	233
946	**SCHOLASTIC** 555 Broadway, New York, NY 10012/212-343-6100	780	868	899
764	**SCHULMAN (A.)** 3550 West Market St, Akron, OH 44333/216-666-3751	723	802	878
383	**SCHWAB (CHARLES)** 101 Montgomery St, San Francisco, CA 94104/415-627-7000	658	420	250
522	**SCIENTIFIC-ATLANTA** One Technology Pkwy South, Norcross, GA 30092/404-903-5000	684	734	849
161	**SCOTT PAPER** Scott Plaza, Philadelphia, PA 19113/610-522-5000	291	239	302
406	**SCRIPPS (E. W.)** 1105 North Market St, Wilmington, DE 19899/302-478-4141	614	449	623
531	**SEAGATE TECHNOLOGY** 920 Disc Dr, Scotts Valley, CA 95066/408-438-6550	268	256	450
876	**SEALED AIR** Park 80 East, Saddle Brook, NJ 07662/201-791-7600	845	855	951
46	**SEARS, ROEBUCK** Sears Tower, Chicago, IL 60684/312-875-2500	9	41	23
752	**SECURITY CAPITAL** 14100 East 35th Place, Aurora, CO 80011/303-375-9292	994	898	716
462	**SENSORMATIC** 500 NW 12th Ave, Deerfield Beach, FL 33442/305-420-2000	752	588	671
364	**SERVICE CORP. INTL.** 1929 Allen Pkwy, Houston, TX 77019/713-522-5141	644	426	325
501	**SERVICEMASTER** One Servicemaster Way, Downers Grove, IL 60515/708-964-1300	351	409	709
943	**SHARED MEDICAL SYSTEMS** 51 Valley Stream Pkwy, Malvern, PA 19355/610-219-6300	834	861	932
437	**SHAW INDUSTRIES** 616 East Walnut Ave, Dalton, GA 30720/706-278-3812	371	430	636
325	**SHAWMUT NATIONAL** 777 Main St, Hartford, CT 06115/203-728-2000	434	268	68
343	**SHERWIN-WILLIAMS** 101 Prospect Ave NW, Cleveland, OH 44115/216-566-2000	333	334	580
511	**SIGMA-ALDRICH** 3050 Spruce St, St Louis, MO 63103/314-771-5765	719	478	792
442	**SIGNET BANKING** Seven North Eighth St, Richmond, VA 23219/804-747-2000	596	393	160
201	**SILICON GRAPHICS** 2011 North Shoreline Blvd, Mountain View, CA 94043/415-960-1980	498	355	652
704	**SIMON PROPERTY GROUP** 115 West Washington St, Indianapolis, IN 46204/317-636-1600	868	835	554
592	**SNAP-ON** 2801 80th St, Kenosha, WI 53141/414-656-5200	626	523	712
801	**SOLECTRON** 847 Gibraltar Dr, Milpitas, CA 95035/408-957-8500	523	716	800
390	**SONAT** 1900 Fifth Ave North, Birmingham, AL 35203/205-325-3800	495	404	417
447	**SONOCO PRODUCTS** North Second St, Hartsville, SC 29550/803-383-7000	428	432	601
63	**SOUTHERN** 64 Perimeter Center East, Atlanta, GA 30346/404-393-0650	135	49	81
808	**SOUTHERN NATIONAL** 500 North Chestnut St, Lumberton, NC 28358/910-671-2000	797	481	228
440	**SO. NEW ENGLAND TEL.** 227 Church St, New Haven, CT 06510/203-771-5200	506	350	420
351	**SOUTHERN PACIFIC RAIL** One Market Plaza, San Francisco, CA 94105/415-541-1000	330	257	381
533	**SOUTHLAND** 2711 North Haskell Ave, Dallas, TX 75204/214-828-7011	159	551	579
542	**SOUTHTRUST** 420 North 20th St, Birmingham, AL 35203/205-254-5000	597	359	115
384	**SOUTHWEST AIRLINES** 2702 Love Field Dr, Dallas, TX 75235/214-904-4000	399	346	470
701	**SOUTHWESTERN PS** 600 South Tyler St, Amarillo, TX 79101/806-378-2121	730	529	611
842	**SPELLING ENTERTAINMENT** 5700 Wilshire Blvd, Los Angeles, CA 90036/213-965-5700	897	901	770
731	**SPIEGEL** 3500 Lacey Rd, Downers Grove, IL 60515/708-986-8800	347	899	492
84	**SPRINT** 2330 Shawnee Mission Pkwy, Westwood, KS 66205/913-624-3000	73	64	142
887	**SPS TRANSACTION** 2500 Lake Cook Rd, Riverwoods, IL 60015/708-405-0200	941	852	816
512	**ST. JOE PAPER** 1650 Prudential Dr, Jacksonville, FL 32207/904-396-6600	778	829	660
541	**ST. JUDE MEDICAL** One Lillehei Plaza, St Paul, MN 55117/612-483-2000	912	614	775
240	**ST. PAUL** 385 Washington St, St Paul, MN 55102/612-221-7911	225	149	117
836	**STANDARD FEDERAL BANK** 2600 West Big Beaver Rd, Troy, MI 48084/810-643-9600	728	457	184
515	**STANLEY WORKS** 1000 Stanley Dr, New Britain, CT 06053/203-225-5111	404	442	632
578	**STAPLES** 100 Pennsylvania Ave, Framingham, MA 01701/508-370-8500	463	841	769
659	**STAR BANC** 425 Walnut St, Cincinnati, OH 45202/513-632-4000	785	463	214
902	**STARBUCKS** 2401 Utah Ave South, Seattle, WA 98124/206-447-1575	918	929	922
366	**STATE STREET BOSTON** 225 Franklin St, Boston, MA 02110/617-786-3000	479	311	96
901	**STERLING SOFTWARE** 8080 North Central Expwy, Dallas, TX 75206/214-891-8600	857	959	875
747	**STEWART & STEVENSON** 2707 North Loop West, Houston, TX 77008/713-868-7700	649	692	789
446	**STONE CONTAINER** 150 North Michigan Ave, Chicago, IL 60601/312-346-6600	187	988	262
690	**STOP & SHOP** 1385 Hancock St, Quincy, MA 02169/617-380-8000	280	616	619
826	**STORAGE TECHNOLOGY** 2270 South 88th St, Louisville, CO 80028/303-673-5151	526	834	600
640	**STRATACOM** 1400 Parkmoor Ave, San Jose, CA 95126/408-294-7600	976	906	988
449	**STRYKER** 2725 Fairfield Rd, Kalamazoo, MI 49002/616-385-2600	781	661	817
320	**SUN** 1801 Market St, Philadelphia, PA 19103/215-977-3000	105	533	273
809	**SUN HEALTHCARE GROUP** 5131 Masthead St NE, Albuquerque, NM 87109/505-821-3355	814	882	734
327	**SUN MICROSYSTEMS** 2550 Garcia Ave, Mountain View, CA 94043/415-960-1300	199	247	460
591	**SUNAMERICA** 1999 Ave of the Stars, Los Angeles, CA 90067/310-772-6000	697	363	140
475	**SUNBEAM-OSTER** 200 East Las Olas Blvd, Fort Lauderdale, FL 33301/305-767-2100	625	494	730
590	**SUNDSTRAND** 4949 Harrison Ave, Rockford, IL 61125/815-226-6000	577	540	656
953	**SUNGARD DATA SYSTEMS** 1285 Drummers Lane, Wayne, PA 19087/610-341-8700	884	823	903
149	**SUNTRUST BANKS** 25 Park Place NE, Atlanta, GA 30303/404-588-7711	322	128	53
926	**SUPERIOR INDUSTRIES** 7800 Woodley Ave, Van Nuys, CA 91406/818-781-4973	872	752	937
513	**SUPERVALU** 11840 Valley View Rd, Eden Prairie, MN 55344/612-828-4000	42	777	362
922	**SURGICAL CARE AFFILIATES** 102 Woodmont Blvd, Nashville, TN 37205/615-385-3541	943	875	949
349	**SYBASE** 6475 Christie Ave, Emeryville, CA 94608/510-922-3500	732	568	838
912	**SYBRON** 411 East Wisconsin Ave, Milwaukee, WI 53202/414-274-6600	880	818	877
995	**SYMANTEC** 10201 Torre Ave, Cupertino, CA 95014/408-253-9600	924	897	985
898	**SYNOPSYS** 700 East Middlefield Rd, Mountain View, CA 94043/415-962-5000	954	916	977
626	**SYNOVUS FINANCIAL** 901 Front Ave, Columbus, GA 31901/706-649-2311	794	578	287
187	**SYSCO** 1390 Enclave Pkwy, Houston, TX 77077/713-584-1390	87	270	461

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Rank	Company	Sales	Profits	Assets
736	**TALBOTS** 175 Beal St, Hingham, MA 02043/617-749-7600	726	787	887
564	**TAMBRANDS** 777 Westchester Ave, White Plains, NY 10604/914-696-6000	799	561	926
477	**TANDEM COMPUTERS** 19333 Vallco Pkwy, Cupertino, CA 95014/408-285-6000	442	345	616
370	**TANDY** 1800 One Tandy Center, Fort Worth, TX 76102/817-390-3700	215	287	435
391	**TECO ENERGY** 702 North Franklin St, Tampa, FL 33602/813-228-4111	585	379	430
785	**TECUMSEH PRODUCTS** 100 East Patterson St, Tecumseh, MI 49286/517-423-8411	548	455	698
771	**TEKTRONIX** 26600 SW Pkwy, Wilsonville, OR 97070/503-627-7111	578	652	744
66	**TELE-COMMUNICATIONS** 5619 DTC Pkwy, Englewood, CO 80111/303-267-5500	243	831	109
651	**TELEDYNE** 1901 Ave of the Stars, Los Angeles, CA 90067/310-277-3311	417	954	669
394	**TELEPHONE & DATA** 30 North Lasalle St, Chicago, IL 60602/312-630-1900	760	727	487
414	**TELLABS** 4951 Indiana Ave, Lisle, IL 60532/708-969-8800	854	662	929
357	**TEMPLE-INLAND** 303 South Temple Dr, Diboll, TX 75941/409-829-5511	358	425	172
377	**TENET HEALTHCARE** 2700 Colorado Ave, Santa Monica, CA 90404/310-998-8000	384	302	432
104	**TENNECO** 1010 Milam St, Houston, TX 77002/713-757-2131	81	101	166
635	**TERADYNE** 321 Harrison Ave, Boston, MA 02118/617-482-2700	783	668	847
950	**TERRA INDUSTRIES** 600 Fourth St, Sioux City, IA 51101/712-277-1340	516	753	815
49	**TEXACO** 2000 Westchester Ave, White Plains, NY 10650/914-253-4000	15	56	84
130	**TEXAS INSTRUMENTS** 13500 North Central Expwy, Dallas, TX 75265/214-995-2011	101	90	263
127	**TEXAS UTILITIES** 1601 Bryan St, Dallas, TX 75201/214-812-4600	192	99	99
206	**TEXTRON** 40 Westminster St, Providence, RI 02903/401-421-2800	108	156	101
398	**THERMO ELECTRON** 81 Wyman St, Waltham, MA 02254/617-622-1000	556	531	456
598	**THERMO INSTRUMENT** 504 Airport Rd, Santa Fe, NM 87504/505-438-3171	800	758	754
643	**THOMAS & BETTS** 1555 Lynnfield Rd, Memphis, TN 38119/901-682-7766	654	948	713
295	**3COM** 5400 Bayfront Plaza, Santa Clara, CA 95052/408-764-5000	671	976	854
775	**TIDEWATER** 1440 Canal St, New Orleans, LA 70112/504-568-1010	841	826	773
647	**TIG HOLDINGS** 65 East 55th St, New York, NY 10022/212-446-2700	497	776	283
55	**TIME WARNER** 75 Rockefeller Plaza, New York, NY 10019/212-484-8000	148	981	122
402	**TIMES MIRROR** Times Mirror Square, Los Angeles, CA 90053/213-237-5000	311	440	377
727	**TIMKEN** 1835 Dueber Ave SW, Canton, OH 44706/216-438-3000	472	683	596
812	**TJX** 770 Cochituate Rd, Framingham, MA 01701/508-390-1000	278	514	648
988	**TOOTSIE ROLL INDUSTRIES** 7401 South Cicero Ave, Chicago, IL 60629/312-838-3400	928	850	948
331	**TORCHMARK** 2001 Third Ave South, Birmingham, AL 35233/205-325-4200	473	233	231
763	**TOSCO** 72 Cummings Point Rd, Stamford, CT 06902/203-977-1000	169	587	613

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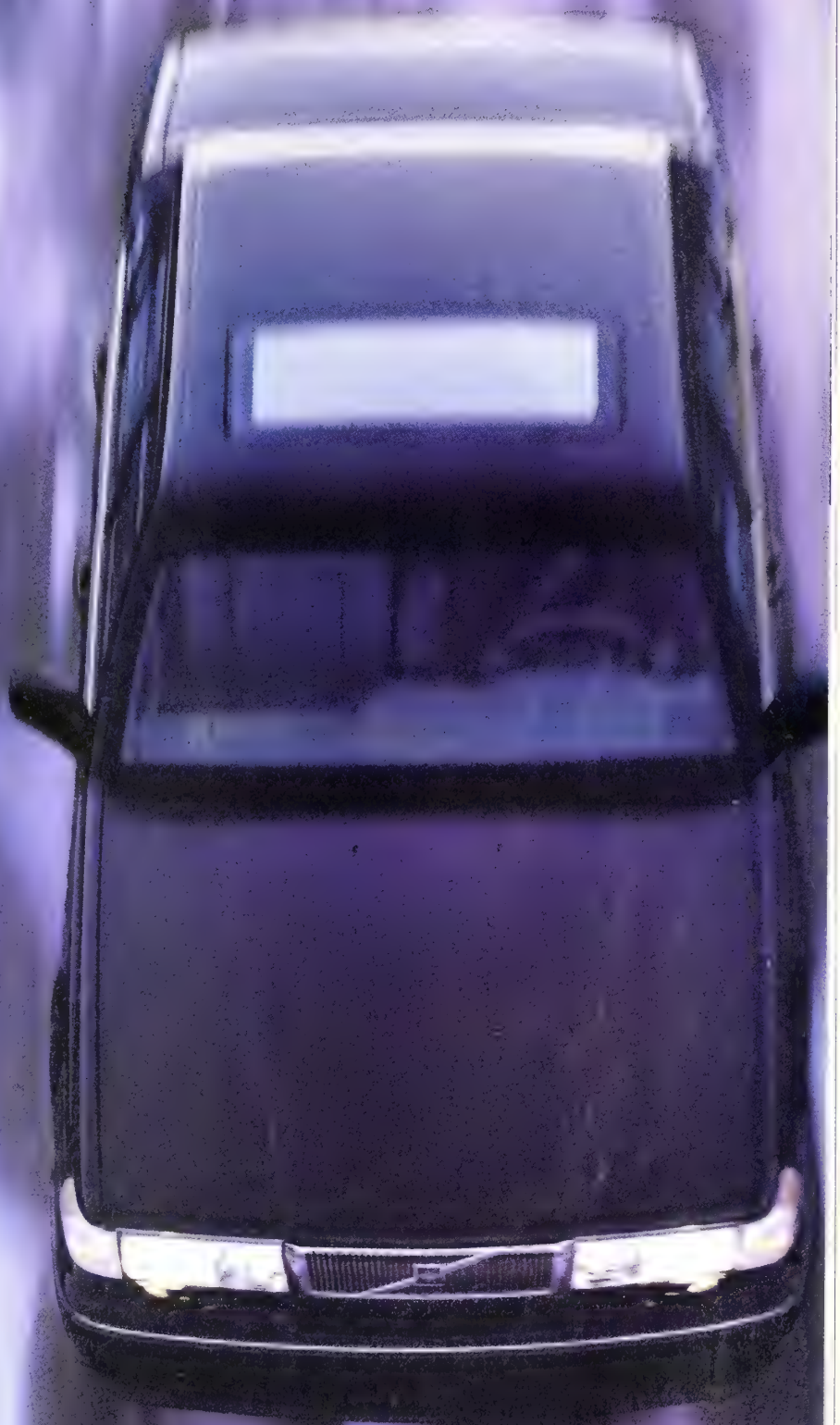

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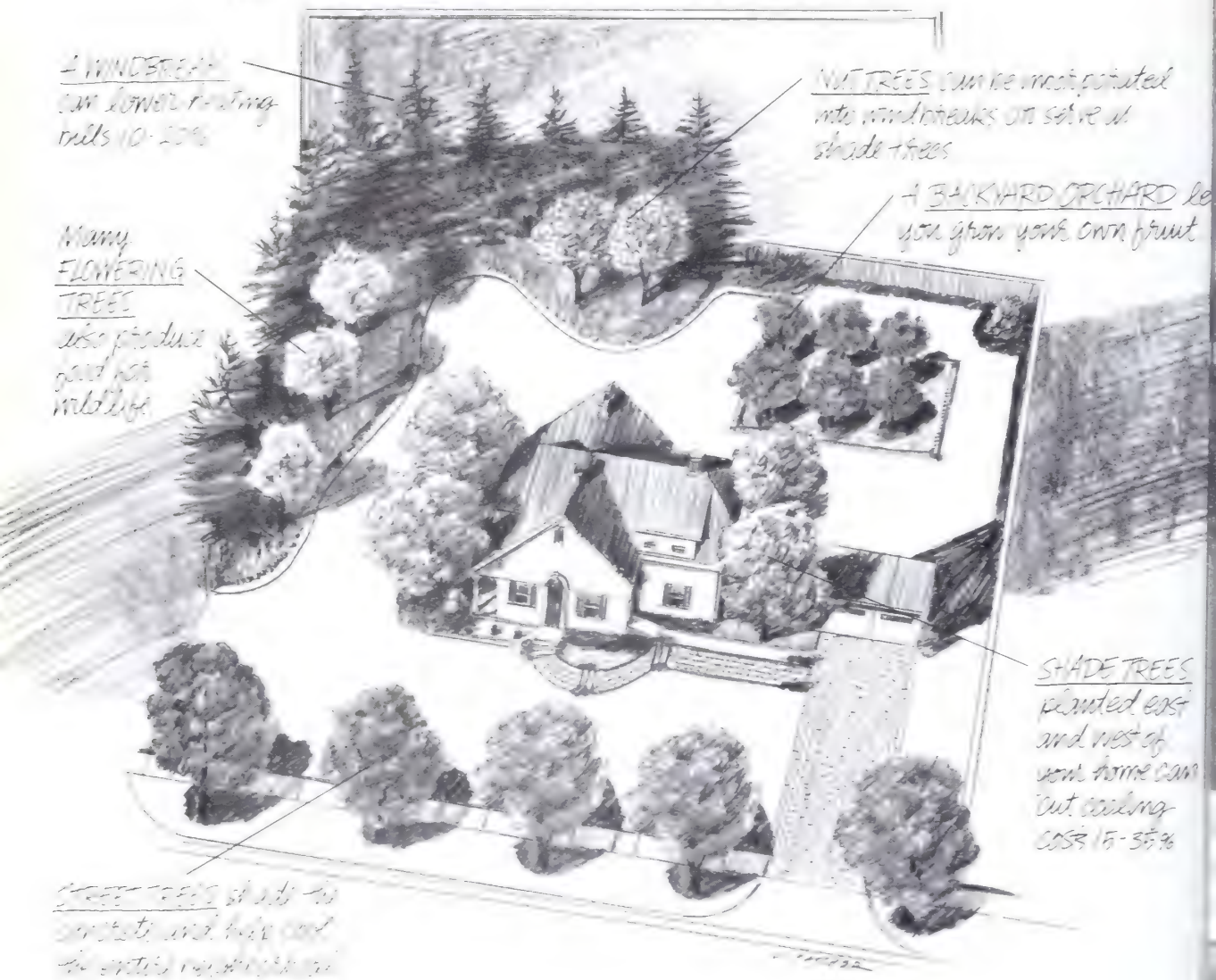
TREES around your home can increase its value up to 15% or more. Trees you plant remove CO2 from the air, produce oxygen and give coolness to your home. Trees provide many other benefits.



America needs more trees

The United States has lost a third of its forest cover in the last 200 years.

Our towns should have twice as many street trees as they have today.

We need more trees around our homes and throughout our communities. We need more trees to protect our farm fields and our rivers and streams. To provide wood for our homes and a thousand products we use every day.

10 Free Trees

The National Arbor Day Foundation, the world's largest tree-planting environmental organization, is sponsoring its Trees for America campaign to plant millions of trees.

Here's how you can participate. When you join the Arbor Day Foundation you will receive ten free Colorado blue spruces, or other conifers selected to grow in your area.

Colorado blue spruces have silver, blue-green color and compact conical shape. Spruces can be planted as a privacy screen, as an energy-saving windbreak, as individual ornamentals, or as living Christmas trees.

Your trees will be shipped postpaid at the right time for planting in your area. February through May in the spri October through mid December fall. The six to twelve inch trees are anteed to grow, or they will be rep free.

To become a member an receive your free trees, send membership contribution to Ten Spruces, National Arbor Foundation, 100 Arbor Ave Nebraska City, NE 68410.

Join today, and plant your for America!

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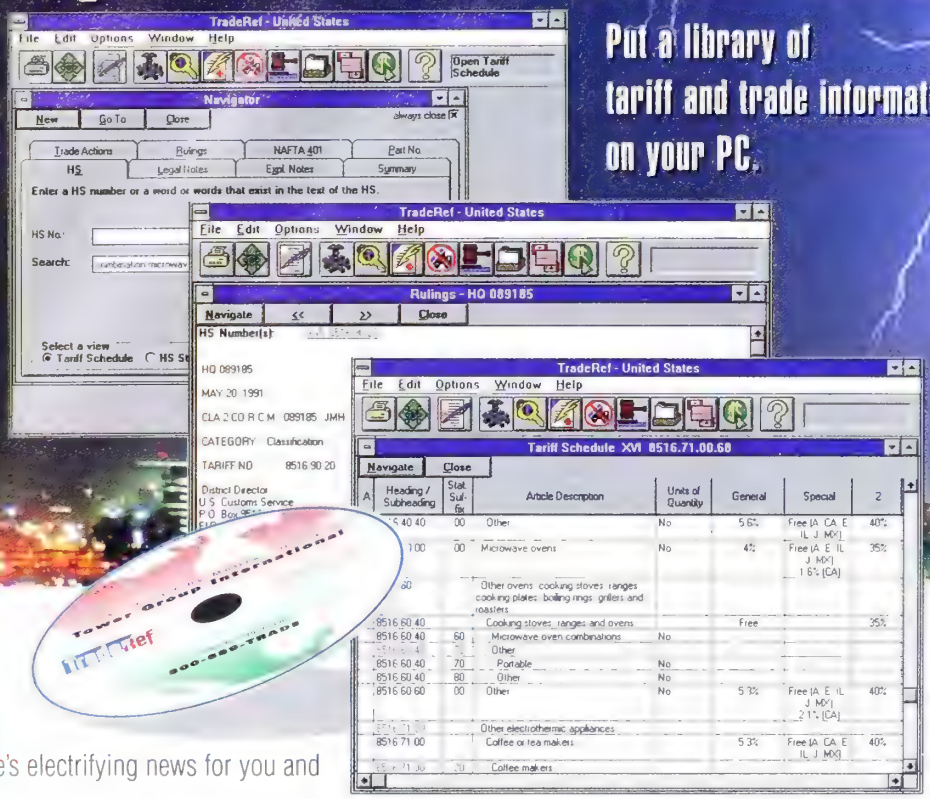

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MKT		OTHER RANKINGS SALES	PROFITS	ASSETS
721	**TOTAL SYSTEM SERVICES** 1200 Sixth Ave, Columbus, GA 31901/706-649-2310	965	902	993
119	**TOYS 'R' US** 461 From Rd, Paramus, NJ 07652/201-262-7800	128	131	253
271	**TRANSAMERICA** 600 Montgomery St, San Francisco, CA 94111/415-983-4000	198	159	56
636	**TRANSATLANTIC HOLDINGS** 80 Pine St, New York, NY 10005/212-770-2000	696	541	423
990	**TRANSCO ENERGY** 2800 Post Oak Blvd, Houston, TX 77056/713-439-2000	367	936	396
000	**TRANSTEXAS GAS** 363 North Sam Houston Pkwy East, Houston, TX 77060/713-447-3111	916	930	874
70	**TRAVELERS** 65 East 55th St, New York, NY 10022/212-891-8900	34	36	15
77	**TRIBUNE** 435 North Michigan Ave, Chicago, IL 60611/312-222-9100	445	266	473
15	**TRIMAS** 315 East Eisenhower Pkwy, Ann Arbor, MI 48108/313-747-7025	839	793	868
28	**TRINITY INDUSTRIES** 2525 Stemmons Fwy, Dallas, TX 75207/214-631-4420	448	620	681
51	**TRINOVA** 3000 Strayer, Maumee, OH 43537/419-867-2200	494	693	756
30	**TRITON ENERGY** 6688 North Central Expwy, Dallas, TX 75206/214-691-5200	999	967	861
27	**TRW** 1900 Richmond Rd, Cleveland, OH 44124/216-291-7000	120	189	300
56	**TURNER BROADCASTING** 100 International Blvd, Atlanta, GA 30303/404-827-1700	369	814	395
62	**TYCO INTERNATIONAL** One Tyco Park, Exeter, NH 03833/603-778-9700	276	398	441
82	**TYSON FOODS** 2210 West Oaklawn Dr, Springdale, AR 72762/501-290-4000	202	944	408

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MKT		OTHER RANKINGS SALES	PROFITS	ASSETS
96	**U. S. BANCORP** 111 SW 5th Ave, Portland, OR 97204/503-275-6111	469	388	95
58	**U. S. CELLULAR** 8410 West Bryn Mawr, Chicago, IL 60631/312-399-8900	917	923	659
37	**U. S. HEALTHCARE** 980 Jolly Rd, Blue Bell, PA 19422/215-628-4800	354	168	672
73	**U. S. SHOE** One Eastwood Dr, Cincinnati, OH 45227/513-527-7000	400	871	727
99	**U. S. SURGICAL** 150 Glover Ave, Norwalk, CT 06856/203-845-1000	695	909	732
05	**UAL** 1200 East Algonquin Rd, Elk Grove Village, IL 60007/708-952-4000	57	632	185
72	**UJB FINANCIAL** 301 Carnegie Center, Princeton, NJ 08543/609-987-3200	651	424	133
07	**ULTRAMAR** Two Pickwick Plaza, Greenwich, CT 06830/203-622-7000	409	724	629
7	**UNICOM** 10 South Dearborn St, Chicago, IL 60690/312-394-4321	172	162	91
15	**UNIFI** 7201 West Friendly Rd, Greensboro, NC 27410/910-294-4410	562	591	760
07	**UNION BANK** 350 California St, San Francisco, CA 94104/415-445-0200	638	642	123
1	**UNION CAMP** 1600 Valley Rd, Wayne, NJ 07470/201-628-2000	308	460	351
9	**UNION CARBIDE** 39 Old Ridgebury Rd, Danbury, CT 06817/203-794-2000	219	169	332
9	**UNION ELECTRIC** 1901 Chouteau Ave, St Louis, MO 63103/314-621-3222	456	199	272
8	**UNION PACIFIC** Eighth & Eaton Ave, Bethlehem, PA 18018/610-861-3200	143	57	129
9	**UNION TEXAS PETROLEUM** 1330 Post Oak Blvd, Houston, TX 77056/713-623-6544	757	688	688
4	**UNISYS** Township Line & Union Meeting Rds, Blue Bell, PA 19424/215-986-4011	147	487	256
2	**UNITED ASSET MGMT.** One International Place, Boston, MA 02110/617-330-8900	856	738	777
4	**UNITED HEALTHCARE** 9900 Bren Rd East, Minnetonka, MN 55343/612-936-1300	279	216	421
9	**UNITED TECHNOLOGIES** One Financial Plaza, Hartford, CT 06103/203-728-7000	28	114	132
0	**UNITRIN** One East Wacker Dr, Chicago, IL 60601/312-661-4600	581	396	359
7	**UNIVERSAL FOODS** 433 East Michigan St, Milwaukee, WI 53202/414-271-6755	704	664	819
135	**UNOCAL** 1201 West Fifth St, Los Angeles, CA 90017/213-977-7600	140	447	215
326	**UNUM** 2211 Congress St, Portland ME 04122/207-770-2211	288	381	158
157	**UPJOHN** 7000 Portage Rd, Kalamazoo, MI 49001/616-323-4000	315	133	324
40	**US WEST** 7800 East Orchard Rd, Englewood, CO 80111/303-793-6500	95	33	90
616	**USF&G** 100 Light St, Baltimore, MD 21202/410-547-3000	324	273	148
751	**USG** 125 South Franklin St, Chicago, IL 60606/312-606-4000	432	982	524
875	**USLIFE** 125 Maiden Lane, New York, NY 10038/212-709-6000	520	535	264
167	**UST** 100 West Putnam Ave, Greenwich, CT 06830/203-661-1100	613	170	820
212	**USX-MARATHON GROUP** 600 Grant St, Pittsburgh, PA 15219/412-433-1121	71	198	190
382	**USX-U. S. STEEL GROUP** 600 Grant St, Pittsburgh, PA 15219/412-433-1121	178	320	274
645	**UTILICORP UNITED** 911 Main St, Kansas City, MO 64105/816-421-6600	551	545	444

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MKT		OTHER RANKINGS SALES	PROFITS	ASSETS
978	**VALASSIS COMMUNS.** 36111 Schoolcraft Rd, Livonia, MI 48150/313-591-3000	830	945	971
952	**VALERO ENERGY** 530 McCullough Ave, San Antonio, TX 78215/512-246-2000	488	892	485
848	**VALHI** 5430 LBJ Fwy, Dallas, TX 75240/214-233-1700	727	907	809
968	**VALLEY NATIONAL** 1445 Valley Rd, Wayne, NJ 07470/201-305-8800	940	737	403
954	**VALSPAR** 1101 Third St South, Minneapolis, MN 55415/612-332-7371	740	813	935
580	**VALUE HEALTH** 22 Waterville Rd, Avon, CT 06001/203-678-3400	683	796	888
768	**VANGUARD CELLULAR** 2002 Pisgah Church Rd, Greensboro, NC 27455/910-282-3690	973	958	915
674	**VARIAN ASSOCIATES** 3050 Hansen Way, Palo Alto, CA 94304/415-493-4000	525	569	757
565	**VARITY** 672 Delaware Ave, Buffalo, NY 14209/716-888-8000	423	490	589
387	**VASTAR RESOURCES** 15375 Memorial Dr, Houston, TX 77079/713-584-6000	517	395	642
919	**VENCOR** 400 West Market St, Louisville, KY 40202/502-569-7300	894	874	928
306	**VF** 1047 North Park Rd, Wyomissing, PA 19610/610-378-1151	213	224	429
50	**VIACOM** 1515 Broadway, New York, NY 10036/212-258-6000	151	429	77
685	**VIKING OFFICE PRODUCTS** 13809 South Figueroa St, Los Angeles, CA 90061/213-321-4493	786	847	967
621	**VISHAY INTERTECHNOLOGY** 63 Lincoln Hwy, Malvern, PA 19355/610-644-1300	681	739	689
976	**VIVRA** 400 Primrose, Burlingame, CA 94010/415-348-8200	932	879	962
888	**VONS** 618 Michillinda Ave, Arcadia, CA 91007/818-821-7000	211	893	531
977	**VORNADO REALTY TRUST** Park 80 West, Saddle Brook, NJ 07663/201-587-1000	993	844	927
490	**VULCAN MATERIALS** One Metroplex Dr, Birmingham, AL 35209/205-877-3000	605	526	719

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MKT		OTHER RANKINGS SALES	PROFITS	ASSETS
163	**WACHOVIA** 301 North Main St, Winston-Salem, NC 27102/910-770-5000	356	124	57
5	**WAL-MART STORES** 702 SW Eighth St, Bentonville, AR 72716/501-273-4000	4	12	64
169	**WALGREEN** 200 Wilmot Rd, Deerfield, IL 60015/708-940-2500	112	214	447
83	**WARNER-LAMBERT** 201 Tabor Rd, Morris Plains, NJ 07950/201-540-2000	166	89	308
936	**WASHINGTON FEDERAL** 425 Pike St, Seattle, WA 98101/206-624-7930	931	566	384
927	**WASHINGTON GAS LIGHT** 1100 H St NW, Washington, DC 20080/703-750-4440	708	743	674
686	**WASHINGTON MUTUAL** 1201 Third Ave, Seattle, WA 98101/206-461-2000	595	360	111
344	**WASHINGTON POST** 1150 15th St NW, Washington, DC 20071/202-334-6000	529	365	634
921	**WASHINGTON WATER** 1411 East Mission Ave, Spokane, WA 99202/509-489-0500	788	630	590
822	**WEINGARTEN REALTY** 2600 Citadel Plaza Dr, Houston, TX 77008/713-866-6000	982	827	841
725	**WEIS MARKETS** 1000 South Second St, Sunbury, PA 17801/717-286-4571	543	636	785
861	**WELLMAN** 1040 Broad St, Shrewsbury, NJ 07702/908-542-7300	692	698	741
309	**WELLPOINT HEALTH** 21555 Oxnard St, Woodland Hills, CA 91367/818-703-4000	370	301	515
105	**WELLS FARGO** 420 Montgomery St, San Francisco, CA 94104/415-477-1000	214	70	40
563	**WENDY'S INTERNATIONAL** 4288 West Dublin-Granville Rd, Dublin, OH 43017/614-764-3100	579	530	739
858	**WESCO FINANCIAL** 301 East Colorado Blvd, Pasadena, CA 91101/818-585-6700	987	900	764
795	**WEST ONE BANCORP** 101 South Capitol Blvd, Boise, ID 83702/208-383-7000	790	511	225
401	**WESTERN ATLAS** 360 North Crescent Dr, Beverly Hills, CA 90210/310-888-2500	443	625	513
979	**WESTERN NATIONAL** 5555 San Felipe Rd, Houston, TX 77056/713-888-7800	791	655	234
478	**WESTERN RESOURCES** 818 Kansas Ave, Topeka, KS 66612/913-575-6300	528	333	321
174	**WESTINGHOUSE ELECTRIC** 11 Stanwix St, Pittsburgh, PA 15222/412-244-2000	125	631	193
365	**WESTVACO** 299 Park Ave, New York NY 10171/212-688-5000	375	414	386
106	**WEYERHAEUSER** 33663 Weyerhaeuser Way South, Federal Way, WA 98003/206-924-4560	99	113	159
378	**WHEELABRATOR** Liberty Lane, Hampton, NH 03842/603-929-3000	592	335	433
244	**WHIRLPOOL** 2000 M-63 North, Benton Harbor, MI 49022/616-923-5000	139	377	270
473	**WHITMAN** 3501 Algonquin Rd, Rolling Meadows, IL 60008/708-818-5000	392	498	547
336	**WILLAMETTE INDUSTRIES** 3800 First Interstate Tower, Portland, OR 97201/503-227-5581	349	349	452
372	**WILLIAMS** One Williams Center, Tulsa, OK 74172/918-588-2000	500	370	320
866	**WILMINGTON TRUST** 1100 North Market St, Wilmington, DE 19890/302-651-1000	898	581	346
236	**WINN-DIXIE STORES** 5050 Edgewood Court, Jacksonville, FL 32254/904-783-5000	89	289	526
966	**WISCONSIN CENTRAL** 6250 North River Rd, Rosemont, IL 60018/708 318-4600	953	848	911
329	**WISCONSIN ENERGY** 333 West Everett St, Milwaukee, WI 53203/414-221-2345	503	341	368
559	**WITCO** One American Lane, Greenwich, CT 06831/203-552-2000	437	493	581
65	**WMX TECHNOLOGIES** 3003 Butterfield Rd, Oak Brook, IL 60521/708-572-8800	103	76	118
466	**WOOLWORTH** 233 Broadway, New York, NY 10279/212-553-2000	126	990	336
510	**WORTHINGTON INDUSTRIES** 1205 Dearborn Dr, Columbus, OH 43085/614-438 3210	569	521	790
844	**WPL HOLDINGS** 222 West Washington Ave, Madison, WI 53703/608-252-3311	735	681	606
183	**WRIGLEY (WM.) JR.** 410 North Michigan Ave, Chicago, IL 60611/312-644-2121	533	275	761

XYZ

MKT		OTHER RANKINGS SALES	PROFITS	ASSETS
73	**XEROX** 800 Long Ridge Rd, Stamford, CT 06904/203-968-3000	50	74	58
571	**XILINX** 2100 Logic Dr, San Jose, CA 95124/408-559-7778	923	784	961
893	**XTRA** 60 State St, Boston, MA 02109/617-367-5000	910	725	762
594	**YORK INTERNATIONAL** 631 South Richland Ave, York, PA 17403/717-771-7890	413	560	655
941	**ZURICH REINSURANCE** One Chase Manhattan Plaza, New York, NY 10005/212-898-5000	962	966	731

BANKS

WAITING FOR GLASS-STEAGALL TO SHATTER

Repeal is in sight, and banks, insurers, and brokers have their wallets out

Ihor W. Hron sounds a little like a kid in a candy shop when he talks about where to take Midland Insurance Co. next. The Columbus (Ohio)-based insurer just converted from mutual to public ownership, and now, with greater access to the capital markets, Hron, Midland's president and CEO, is mulling potential acquisitions. He figures he may buy a couple of insurance companies over the next 18 months or so—and then, he says, who knows? If regulations allow, "we would not close our eyes to a deal with a bank."

Hron is not alone. Investment bank Donaldson, Lufkin & Jenrette, currently owned by Equitable Cos., has recently talked to banks about being acquired. And across the country, financial services executives are starting to plan for—or at least daydream about—the increasingly likely repeal of the decades-old barriers created by the Depression-era Glass-Steagall Act and other regulations. The result could eventually be a dramatic remaking of the financial services industry.

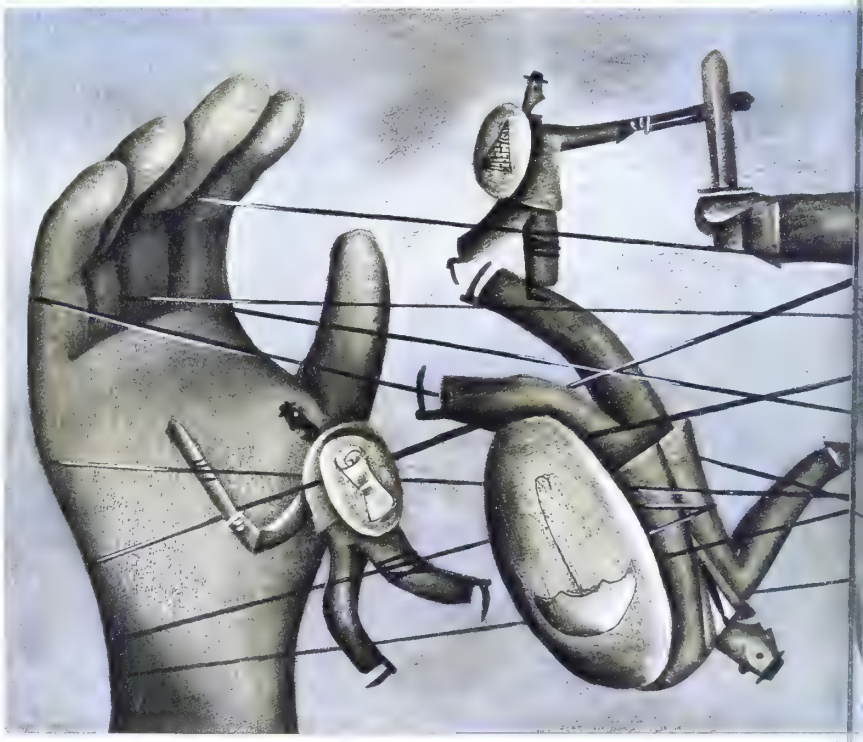
PILEUP. Although many restrictions have fallen by the wayside in recent years, rules still generally prohibit mergers between banks and such financial institutions as securities firms and insurers. Congress and the Clinton Administration are now advocating reform of Glass-Steagall, and the consensus among financial services experts is that the regulations will be gone by the end of 1996. Senator Alfonse D'Amato (R.-N. Y.) and Representative Richard Baker (R.-La.) are even proposing that banks, securities firms, and insurers be permitted to combine with each other and with nonfinancial companies.

The potential ramifications will be gradual but substantial. "It won't be a stampede, but there will be some major transactions which will change the competitive landscape," says CS First Boston managing director Richard E. Thornburgh. The big will definitely get bigger, as size becomes more important to remain competitive. It's even conceivable that a big foreign bank such as Deutsche Bank could buy a major American firm, perhaps Merrill Lynch, Goldman Sachs, or Morgan Stanley. And as financial companies diversify, corporations will find they can choose between many more financial services providers and often obtain lower prices.

Not everyone will benefit, however. Many insurance agencies, mutual insurance companies, and small banks and brokers will likely lose market share to big players and will be bought up, not necessarily at generous prices, or pushed out of business. Kenneth A. Guenther, president of the Independent Bankers Assn., who is vehemently opposed to Glass-Steagall reform, labels the D'Amato proposal "a formula for massive economic and financial concentration."

Overly aggressive acquirers, though, could also get hurt. Past attempts at diversification in financial services have tripped up scores of companies, including Sears Roebuck, American Expres and Prudential Insurance. And if to many companies pile into the same bus nesses at once, they will squeeze ou the profits.

Still, the likely winners stand to wi big. Citicorp, Merrill Lynch, America International Group, and other financi services behemoths have an edge b



cause they already have experience in variety of financial services business they were not specifically prohibit from entering or where they found re ulatory loopholes. Some large, well-r regional banks such as Minneapolis' N west Corp. have taken similar steps a are also positioned to gain.

Corporate executives are also eag ly looking forward to regulatory refo Buel T. Adams, vice-president and tre urer of CBI Industries Inc., an O Brook (Ill.) diversified industrial-g company, calls the prospect of the dis lution of Glass-Steagall a "win" for bu

ess. In particular, he expects lower rices from investment bankers as com- ercial banks make growing inroads on Vall Street. "The most exorbitant fees ompanies like us pay are for invest- ent banking services," Adams says.

Smaller financial services players will ot fare nearly as well. For example, in- rance agents are up in arms about e prospect of deregulation. Comprising e of the most costly distribution sys- ms for financial services, agents would vulnerable if banks with lower-cost les networks started issuing and mar- ting the same products they sell. Cur- ntly banks are generally barred from suing their own insurance products, hich cuts the potential profit.

Small insurance companies are also at sk. Says one lobbyist for a major insu- r: "If you go down the ladder, you ickly reach a point where people view is as a threat—especially the mutuals" ecause they don't have the same ac- ss to capital. That's partly why compa- es such as Midland are trying to demu- alize and go public. Robert D. Bates, airman and CEO of Guarantee Mutual fe Co., a $1 billion insurer in Omaha, s he aims to go public because "you ed greater mass to be able to com- e and grow" as competition intensifies.

Brokers are equally vulnerable to the ely wave of takeovers. Oppenheimer Co. is currently talking to ING, the tch bank and insurance giant. Firms h strong national networks of bro- s, such as A.G. Edwards Inc. or Ed- rd D. Jones & Co., are also attrac- e. Both Benjamin F. Edwards III, o of A.G. Edwards, and John W. Bachmann, CEO of Edward D. Jones, say their firms aren't for sale. But the appetite of acquirers is unmistakable.

Mutual-fund firms could also be more vulnerable as more companies diversify. Small outfits are obvious targets, but bigger ones could be as well: Experts say T. Rowe Price Associates, with $58 billion under management, has wide appeal thanks to solid fund performance and earnings. A spokeswoman says the company plans to stay independent.

EQUAL FOOTING. As for banks, consolidation has been rapid for several years, but experts expect the pace to accelerate. Once again, small institutions are most vulnerable. Larry G. Mayewski, senior vice-president at insurance-rating agency A.M. Best Co., predicts that strong insurance companies could go after banks for their distribution networks. Well-capitalized superregional banks such as NationsBank Corp. and Banc One Corp. could also be more active buyers. Foreign banks could step up their U.S. expansion plans as well.

Not all the smaller players are worried. At the right price, "getting taken out may be a good deal," says William B. Weaver, co-head of the financial services group at Lehman Brothers. Some believe that they can compete successfully even against bigger rivals. William E. Martin, president and CEO of Pioneer Bancorporation in Reno, Nev., and a former deputy comptroller of the currency, says that technology enables his institution to offer the same products that financial supermarkets could offer. "Our computer runs just as fast," he says. "There are no products that [Bank of America] can introduce that I can't."

Nor is it clear that the financial-supermarket builders will be all that proficient. Many, such as Prudential Insurance, have run into big trouble diversifying. Cultural reasons loom large. Irving W. Weiser, CEO of broker Dain Bosworth Inc., which is 40% employee-owned, warns that his industry "does best when left to large employee ownership and entrepreneurship. It doesn't fit particularly well in a more structured environment."

But mainly, the trouble is simply poor judgment. "Just because you find a way to acquire a whole new line of business doesn't mean you're going to be able to do it profitably," says William F. Ford, professor of finance at Middle Tennessee State University and a former president of the Federal Reserve Bank of Atlanta. "Most of the financial disasters have been cases where people had the right to get into a new line of business and botched it."

Michael J. Murray, executive vice-president and head of corporate banking for BofA, questions the widespread interest among acquirers to get into investment banking. "Tell me again, boys and girls, why you're dying to get into a business that just had a terrible year. There's a lot of pretty sobering history to investment banking." But as the pace of reform accelerates, financial institutions will have to exhibit a lot more discipline than they normally do to make sure that history doesn't repeat itself.

By Kelley Holland, Leah Nathans Spiro, and Phillip L. Zweig in New York, with bureau reports

Who Wins and Who Loses If Glass-Steagall Is Abolished

WINNERS

DIVERSIFIED FINANCIAL SERVICES GIANTS such as Merrill Lynch, Travelers Insurance, and Citibank should have the scale and expertise to increase market share.

BIG CORPORATIONS will have more financial companies vying to offer them similar services, and possibly package deals, which will lower the cost of borrowing money or issuing stock.

LOSERS

SMALL BANKS AND BROKERS will lose market share to more big competitors. Some will also be vulnerable to takeovers by banks, insurers, and securities firms seeking new distribution channels. Potential acquirees include national brokers A.G. Edwards and Edward D. Jones. But with more bidders, sellers might be able to command higher prices.

INDEPENDENT INSURANCE AGENTS will face intense competitive pressure if more insurance products are issued and sold by banks and brokers looking to get into new lines of business. Rivals' distribution costs are significantly lower.

DATA: BUSINESS WEEK

MARKETS

VISIONS OF A SOFT LANDING HAVE WALL STREET'S HEART RACING

If growth remains modest and inflation stays quiet, bulls see the Dow at 5000 in '97

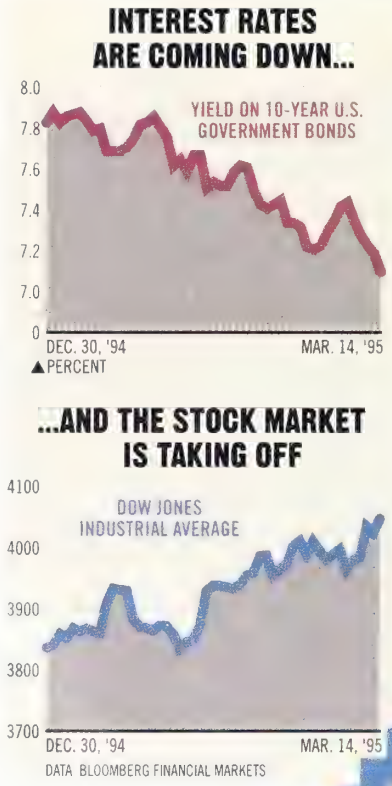
It's Thanksgiving, 1994. The stock market has been knocked around for the better part of a year. The Dow Jones industrial average is at 3675—below where it started the year. Then, over the next three months, the market is hit with the Orange County derivatives mess, the surprise devaluation of the Mexican peso, a devastating earthquake in Japan, the collapse of one of the world's most venerable investment banks, and the U.S. Senate's failure to pass the balanced-budget amendment. Top it all off with a run on the U.S. dollar that sends the greenback plunging to record lows.

What do you get? A Dow that's at 4040 and poised to go higher. "The market has sloughed off every adversity," says Byron R. Wien, U.S. investment strategist for Morgan Stanley & Co. Why is the market pushing higher and confounding the pros? The unusual combination of falling interest rates and high profitability.

So far this year, the yield of the 30-year U.S. Treasury bond has dropped about one-half a percentage point, to 7.36%. Measured from the November high in interest rates, the yield is down four-fifths of a percentage point. Even more amazing perhaps is that the yield on the 10-year bond, at 7.09%, has dropped nearly three-quarters of a percentage point so far this year and nearly a whole percentage point from its high. Lower interest rates raise valuations for stocks across the board.

PLAY OR PAY. The more-than-10% decline in interest rates this year has helped push the Dow up 5.3%. The broader Standard & Poor's 500-stock index, at 492, has climbed 7.1%. Market analyst Laszlo Birinyi of Birinyi Associates thinks there's more buying ahead from institutional investors and mutual-fund managers, who will try to make up for their poor returns of the past year. "Many underperformed last year and explained it away as a lousy market," he says. "But this year, we have a strong market, and not to participate in it is unpalatable."

But perhaps the more important message from the bond market is that the economy is slowing and coming in for a soft landing, while inflation—a major worry of markets last year—is not perceived to be a threat. In that light, "what's going on in the stock and bond market makes perfect sense," says Abby Joseph Cohen, investment strategist for Goldman, Sachs & Co. "The Fed has accomplished what it set out to do." The soft landing, note Thomas M. Keresey, chairman of Pal Beach Investment Advisers Inc., "e tends the economic cycle and the bu market. In two years, we'll be talkin about Dow 5000."



Dow 5000? Soft landing? Those ide still raise eyebrows on Wall Street. "Th only problem with the market gettin excited over a soft landing is that th Fed has never been able to engine one," says Christopher R. Castrovie who runs Parallax Partners LP, a hed fund. "Every business cycle go through a soft quarter that people mi take for a soft landing." Castrovie fund was 100% long from Decemb through February, but now he's thinkin about some short sales.

DAZZLING POTENTIAL. And though soft landing beats a recession or infl tion any day, it can have a downside well—slower earnings growth. "It's i possible to slow GDP and get high earnings," warns investment strateg Jeffrey M. Applegate of CS First Bo ton. Lower interest rates offset some the slowdown in earnings growth, b Applegate thinks there's little marg for error.

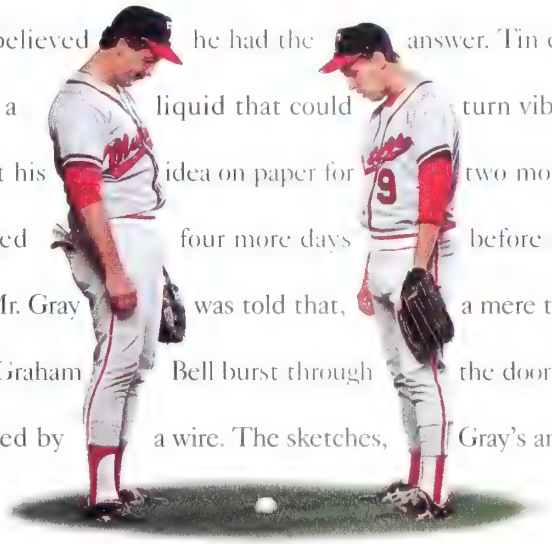
The bulls' case does not rest sharply higher earnings. But earnin have the potential to daz investors. Corporate prof ability, as measured by retu on equity, is the highest it h been in years. Corporatio continue to downsize and sh unprofitable businesses, a proce that is keeping a damper on bor costs as well. That mea more incremental revenue falling to the shareholders' bottom li

But even without big earnings gai an environment of stable or declini interest rates and low inflation can sweet for stocks. Goldman's Cohen sa the S&P historically trades at a pri

Despite the Japanese earthquake, the peso debacle, and the Barings failure, the Dow hasn't missed a beat

*W*HY YOUR COMPETITION DOESN'T NEED YOU TO FAIL, ONLY TO HESITATE.

*I*n early 1874, an inventor named Elisha Gray transmitted a few faint musical notes over a telegraph wire. And if he could send music, then what next? The human voice. A word. Conversation. *The New York Times* reported predictions of a "talking telegraph," and the public grew eager for it. Just one year later, Gray believed he had the answer. Tin can-like voice chambers connected by a wire and a liquid that could turn vibrations into signals. But inexplicably, he didn't put his idea on paper for two months. And after finally making a sketch, he waited four more days before he went to the patent office. When he arrived, Mr. Gray was told that, a mere two hours earlier, a schoolteacher named Alexander Graham Bell burst through the door with his own sketch. Of voice chambers. Connected by a wire. The sketches, Gray's and Bell's, were identical. The two men were not.



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to-earnings ratio of 16.5 when inflation is 3% or less, yet the current price of the S&P is only 13.7 times expected 1995 earnings. If the stocks rose to make up only half that gap, the S&P would climb to 543 and the Dow well over 4400.

The bulls are going after high-quality large-capitalization growth, shying away from more speculative plays. "Where investors see steady and predictable growth, they'll pay up for it," says mutual-fund manager Elizabeth Bramwell of Bramwell Capital Management. That's why stocks such as Abbott Laboratories, Johnson & Johnson, Microsoft, McDonald's, and Procter & Gamble are on many buy lists.

Such big companies are also alluring because they have significant business abroad, where they may be helped by the weak dollar. That could be another reason why small-company stocks have been left behind in the rally, says Thomas A. Frank, lead portfolio manager of the Dreyfus New Leaders Fund. Still, he adds, "there are many small companies which are global leaders in their businesses." Some of those companies have large holdings in his fund: Bush Boake Allen, A. Schulman, and Ferro, which are in various specialty chemical businesses; and R. P. Scherer, which makes capsules for drug companies.

> "Where investors see steady and predictable growth, they'll pay up for it"

Even the folks who are generally upbeat about stocks say there are still some barriers to a big move. Strategist Edward M. Kerschner of PaineWebber Inc. notes that while long-term rates are down substantially, short-term rates are not. "You can get 6.7% risk-free in a two-year note, and that's still a pretty good deal," says Kerschner.

An avowed bull, Palm Beach's Keresey admits the stock market has come along a little too fast and a little too easily for his comfort. "If first-quarter GDP comes in a little higher than expected, interest rates might back up a little bit, and stocks will have a short correction," he says. "If so, I'd view it as a buying opportunity." After all, Keresey is looking toward Dow 5000.

By Jeffrey M. Laderman in New York

PENNY STOCKS

'I NEVER SCREWED ANYBODY'

Shareholders of Lew Schiller's Consolidated Tech might disagre

Lewis A. Schiller, chief executive officer of Consolidated Technology Group Ltd., takes a drag on a thin cigar and leans back in his chair. He is a bearlike, affable man, 63 years old. He is in the conference room at Consolidated's corporate headquarters, on the ninth floor of an old brick office building in lower Manhattan. The atmosphere is mellow. Schiller is recounting one of Consolidated's latest exploits: the acquisition of a string of diagnostic facilities in Florida. Consolidated has been on a takeover binge in recent months, buying an array of impressive-sounding high-tech companies. Schiller is enthused, excited.

SEQUENTIAL: *A Dickensian succession of lawsuits*

But suddenly, Schiller becomes less affable. A sensitive subject has been brought up: the shareholders. There are 20,000 of them, and most lost at least 97¢ out of every dollar they put into Consolidated stock in the 1970s and 1980s—back in the days when Consolidated was called Sequential Information Systems Inc. Sequential was probably the most widely peddled stock to be churned from the penny-stock mills of that era. Schiller, however, is tired of hearing about the penny-stock era. "I'm an honest man," he says. "I never screwed anybody."

The future is bright for Consolidated, he insists. And there's no question that Consolidated is doing quite nicely, at least compared with the bad old days. The company is no longer starved for cash. It is expected to report pretax earnings of $3 million, or 40¢ a share, on sales of $100 million for 1994. Its shares, not traded for years, were listed under the new name on the NASDAQ sto market in September, 1993. But for t sad army of shareholders, any rejoici is premature. At Consolidated, the penny-stock days are alive, if not we

CONVOLUTED TALE. To begin with, t acquisition binge was largely financ the old-fashioned way—by issuing sto this time to foreign investors. And C solidated has also been pushed on U investors by the new generation of p ny-stock peddlers—Hibbard Brown Co., the penny-stock firm that went of business last August. As a key C solidated market-maker, Hibb Brown's demise last August was one the reasons for the collapse of Cons dated stock, from $6 to $1 a share, o

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A TIME-HONORED TRADITION IN MONEY MANAGEMENT

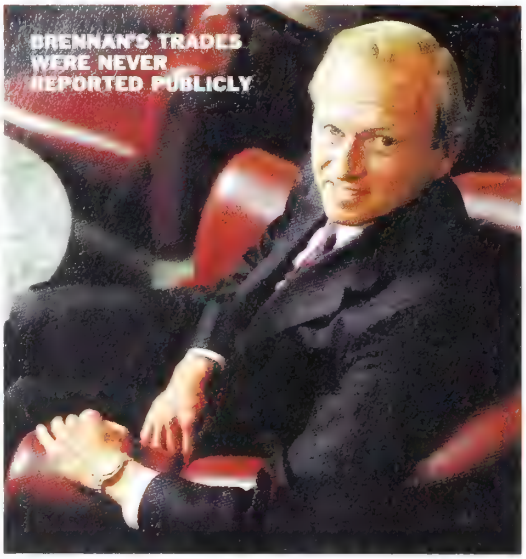
the past year (chart). By contrast, the hapless stock buyers in the Eighties paid the post-split equivalent of $40 a share or more. But that's not to say that nobody has been able to turn a profit on Consolidated shares. One man has done that: Robert E. Brennan, the legendary penny-stock merchant.

Indeed, the recent twists in the Sequential-Consolidated story are the latest chapter in a fascinating—if convoluted—tale. Sequential began life in the early 1960s as an electronics firm, but its primary claim to fame involves another invention: the telephone. Sequential shares were aggressively pushed by cold-calling salesmen at Brennan's First Jersey Securities and the now-defunct Rooney Pace Inc. Rooney Pace was later found guilty of manipulating Sequential shares and misleading customers.

HIGH-TECH ACQUISITIONS. When the penny-stock schemes collapsed, so did Sequential stock. By the late 1980s, the shares could not even fetch a penny. The late Eighties and early Nineties were a dizzying nightmare of a nearly insolvent company, lawsuits, and blunders—above all the ill-fated sale of its operating company, Sequential Electronics Systems, to a Long Island firm called General Technologies Group Ltd. A Dickensian succession of lawsuits followed. When the smoke cleared, the SEC had acted decisively—against the people Schiller had sued.

Schiller insists that he didn't blow the whistle on his former cohorts. But he cooperated, and actively, he says. In the end, General Technologies Group Ltd. Chairman Eli Reiter pleaded guilty to fraud charges, as did an auditor at the company's accounting firm, Frederick Todman & Co. Schiller says he is cooperating with the SEC in civil proceedings against another former Todman executive.

All the litigating and cooperating haven't deterred Schiller from expanding Consolidated. The company has purchased magnetic resonance imaging centers and a smattering of other development-stage companies—an employee outsourcing company here, a telecommunications outfit there. The aggressive acquisition campaign was noted favorably by *Emerging & Special Situations*, a Standard & Poor's publication, in its Dec. 19 issue. (S&P is owned by McGraw-Hill Inc., publisher of BUSINESS WEEK.) The editor, Robert S. Natale, says he was aware of Consolidated's penny-stock pedigree when he listed the firm—which, he notes, was not a formal recommendation.



GOOD TIMING?

Bob Brennan, an old pal of Schiller from the penny-stock era, swiftly dumped shares just before the plunge

Another penny-stock watcher has also had his eye on Consolidated—Bob Brennan. According to SEC records, last May 13, Brennan's company, International Thoroughbred Breeders, bought 750,000 Consolidated shares at $6.00 a share—62¢ cheaper than the closing price on that day. ITB then sold 131,000 shares on May 18 at $6.46, 170,000 shares on May 19 at $6.46, and 100,000 shares the following day at $6.47. Brennan is hazy about how much more he was able to unload before the price collapsed. Overall, he says, he "probably sustained a modest loss."

Brennan has an intriguing explanation for the swift dumping of the stock. In an interview, he maintained that the purchase, 6.48% of Consolidated's shares outstanding, violated ITB's policy of not buying more than 5% of a company's shares. The error, he says, was discovered "by the guy who processes our trades." ITB then sold the shares—far more than was needed to put ITB below 5%. Why so much? He doesn't recall.

An SEC filing says the shares were purchased in the over-the-counter market. Yet the huge trade was not made public at the time. NASDAQ records show only 15,000 shares traded on May 13. Was Brennan's huge purchase reported to NASDAQ? Brennan isn't sure—and neither is NASDAQ. James Spellman, a NASDAQ spokesman, says the trade may have been reported out of sequence, and su trades are not always publicly disclose

Brennan narrowly escaped a calamit In the summer of '94, Consolidate shares began their sickening decli from $6 to about $1.19. The pre-sp equivalent: 2¢. Schiller has no explan tion for the decline. But the loss of Hi bard Brown clearly hurt Consolidate because Hibbard was aggressively pus ing Consolidated shares. How aggre sively? Well, in April, four months b fore Hibbard bit the dust, the state Wisconsin suspended Hibbard Brown broker-dealer license, alleging that t firm used misleading, hard-sell tacti in selling Consolidated shares and tv other stocks to Wisconsin resident State officials said Hibbard Brown w running an old-fashioned boiler-room o eration—just the way Sequential h been sold in the Eighties.

OVERSEAS CASH. Schiller denies know edge of such chicanery. In any event, his own stock sales he is steering clear U. S. regulators. The company's bigge injection of cash in recent years car from overseas, mainly Canadian investo who bought $14 million in Consolidat shares sometime over the past year. As Regulation S offering, its terms did n have to be disclosed in this country a are of no concern to U. S. regulators.

So Consolidated's army of shareholde has been reinforced. Will the new r cruits fare better than the old? "Schil is quite a guy—he's a survivor. He's de icated to make the company work," sa Brennan, a Schiller friend for 20 yea Schiller, like Brennan, is a master s vivor—and so is Consolidated. But v the shareholders ever be made who An old expression may put it best: "Th should live so long."

By Gary Weiss in New Yo

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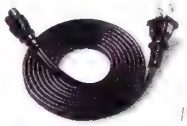

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BY GENE G. MARCIAL

ON THE LOOKOUT FOR SNAPPY GAINS

One of the more aggressive mutual-fund managers around, Audrey Snell doesn't shy away from volatile stocks or those with high price-earnings ratios. Described by peers as a "momentum" player, Snell is currently buying technology, telecommunications, and health-care issues she feels have prospects for big earnings increases.

Snell's hard-driving style has paid off handsomely since she took the helm of the $100 million SunAmerica Small Company Growth Fund three years ago. In 1991-94, the fund posted hefty compounded returns of 12.7% a year—vs. 6.2% for the Standard & Poor's 500-stock index.

Snell's picks aren't necessarily the underdogs. Alliance Semiconductor (ALSC), for one, has been on the upswing, climbing from 13 a share last autumn to 41¾ on Mar. 14. Yet Snell is convinced its full potential lies ahead.

"Demand for Alliance's chips has been massive because of ever-increasing need for speedier performance by microprocessors," says Snell. Alliance should earn 90¢ a share in 1995 and $1.50 next year, she figures.

SNELL'S TOP STOCK PICKS

STOCK	RECENT PRICE	1994-95 RANGE	12-MONTH TARGET
ALLIANCE SEMICONDUCTOR	41¾	6–43	50
CORAM HEALTHCARE	24	10–24	30
LANNET DATA COMMUNICATIONS	19¾	6–25	40
TELLABS	53¾	25–56	70

DATA: BLOOMBERG FINANCIAL MARKETS

Another Snell favorite—Coram Healthcare (CRH)—is one of the hot stocks in the industry. Coram, which is on an acquisition binge, provides out-of-hospital services for patients suffering from chronic ailments. Snell thinks the shares, which have shot up from 10 last July to 24 lately, are headed for the high 30s. She believes Coram will earn $1 to $1.20 a share this year, and $1.50 in 1996.

Lannet Data Communications (LANTF), an Israeli maker of computer equipment for local-area networks and mainframes, is another strong performer on Snell's list. It climbed from 8 last October to 19 on Mar. 14. The company, "which makes among the best switching equipment in the industry," according to Snell, is in talks with several U.S. companies to establish a bigger presence in America. Lannet's products, distributed in 50 countries, are in hot demand not only for computers but also for the automotive, pharmaceutical, telecommunications, and chemical markets. Earnings are heading up, notes Snell, jumping from 39¢ a share in 1994 to an estimated $1 this year, and $1.35 in 1996.

GOING UP: *Snell's yardstick is growth*

Tellabs (TLAB), a maker of voice- and data-networking products for telecommunications, trades at a hefty p-e of 34, but Snell thinks the stock is still cheap. She expects Tellabs to make $2.25 a share this year and $3 next year, up from last year's $1.60. Now at 53, the stock is headed for 70, Snell believes.

TOTAL RESEARCH FOR UNDER A BUCK?

It has been a rule in this column never to feature a stock selling for $1 or less. But here's an exception: Total Research (TOTL), a specialized market-researcher, is teetering at a price of around 1 a share—less on some days. But that could change soon, say some smart-money investors who have been buying.

Here's what got one New York money manager to start: On the Total Research list of clients are some of the bluest chips of American business—AT&T, IBM, Motorola, American Airlines, MCI, and Prudential Insurance. What does Total sell? Full-service research of a specialized kind: Total provides "predictive statistical market research"—measuring how consumers value a product or brand. "Marketing strategy is usually based on such research," says Richard Geist, editor of *Geist's Strategic Investing*.

Total's customers pay big bucks for the service: No matter how modest Total's operations are, it makes good money. In the second quarter that ended on Dec. 31, 1994, Total posted record results: Sales advanced 51%, and earnings jumped 174%. In the year ended June 30, 1994, Total had profits of $647,000, or 7¢ a share, on sales of $13.6 million.

For fiscal year 1995, Geist estimates earnings of 13¢ a share on revenues of $24 million. With Total's goal of expanding its operations overseas, Geist sees 1996 earnings of 24¢ on $50 million. Based on such growth, says Geist, "the stock is way undervalued and could hit 4 in a year."

UPBEAT DATA ON A DATA GATHERER

Although not a radio or TV network, Data Broadcasting (DBCC) has been attracting pros' attention for two reasons. It's a pure play in the dissemination of stock-market information to investors. And the company is headed by two respected financial and entertainment moguls: Columbia Pictures' ex-CEO Alan Hirschfield and entrepreneur Allan Tessler, who together own some 30% of the stock. "These co-chairmen and co-CEOs of Data have a reputation for always enhancing the value of the stocks they own," says one big investor.

At its current price of 4 a share, Data Broadcasting "has a p-e ratio of 13 that does not reflect the many favorable things going on in the company," says Joel Krasner, an analyst at Southcoast Capital, who has a buy rating on the stock. One of Data's products delivers real-time stock quotes from all major exchanges to a user's personal computer. Another product, QuoTrek, is a handheld quotation monitor that receives data via FM broadcast signals and displays real-time market quotes on a user-defined list of as many as 128 stocks at one time from the major domestic exchanges.

Krasner says Data Broadcasting's recent acquisition of Broadcast International, which gathers information and delivers it to retail and financial markets, will boost earnings and help establish new wireless ventures in finance and sports.

Krasner increased his earnings estimate for 1996 from 30¢ a share to 33¢ on projected revenues of $115 million. He expects Data to make 22¢ this year on sales of $80 million, up sharply from last year's 19¢ on $66 million.

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TELECOMMUNICATIONS

WHO'LL BE THE FIRST GLOBAL PHONE COMPANY?

Contenders AT&T and British Telecom are slugging it out for all they're worth

In May, 1993, a stream of corporate jets touched down at Edinburgh airport, bringing top executives from AT&T, Nynex, France Telecom, and dozens of other phone companies to a two-day conference at Gleneagles golf resort. Sir Iain Vallance, chairman of British Telecommunications PLC, was the keynote speaker. But the reserved Scotsman vanished after the first coffee break, slipping off to the Caledonian Hotel for a *tête-à-tête* with Bert C. Roberts Jr., chairman of MCI Communications Corp. A few hours later, the men shook hands on a megadeal: For $4.3 billion, the British phone giant would get 20% of the No. 2 U.S. long-distance company and, together, BT and MCI would challenge AT&T in global telecommunications.

With that handshake, BT and AT&T were thrown into what looks to be a two-carrier race. Lots of other phone companies and computer-services firms vie for the same business: creating worldwide voice and data networks for top multinationals. And the proposed joint venture between Sprint, Deutsche Telekom, and France Telecom (page 180), has its eye on the same prize. But AT&T and BT are uniquely positioned, thanks to their financial strength, global reach, and deregulated status. Clear AT&T, the industry giant with an es mated $45 billion in calling revenues, focused on $22 billion BT. "The BT-M combination is the leading competitor in our minds," says Victor A. Pelso head of AT&T's global operations.

So what do these two powerhous want? Selling telecom services to t multinationals, a profitable niche expe ed to hit $25 billion by 2000, is just t start. The ultimate brass ring is more cosmic: to become the first tr global phone companies, serving hou holds and businesses on every cor nent. "The real money will be made

AT&T

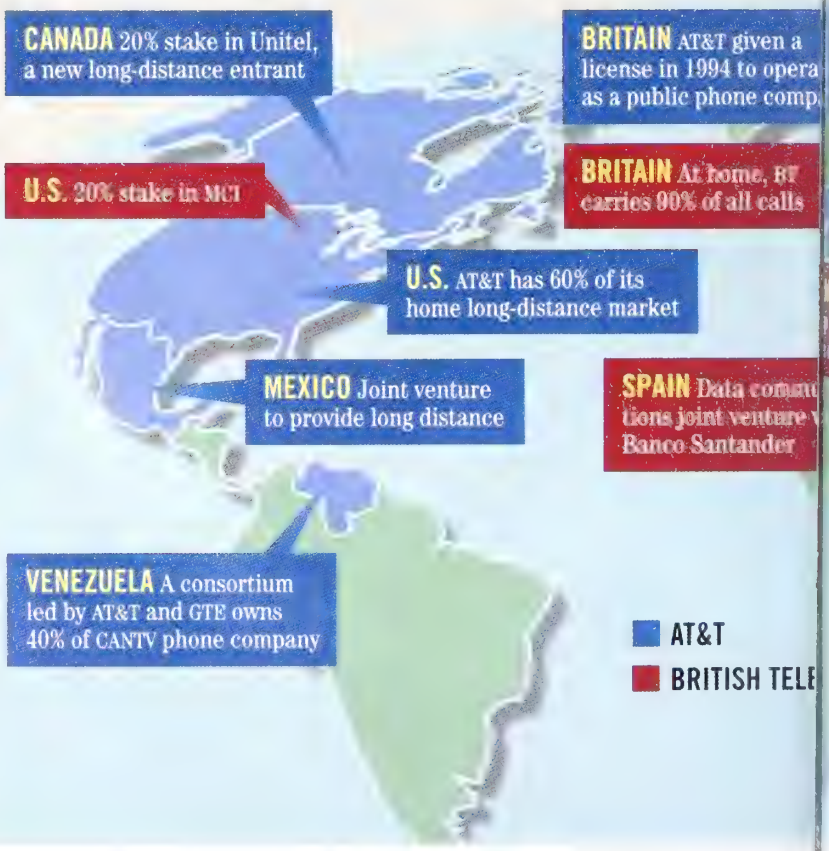
1994 INTERNATIONAL REVENUES $18.75 billion, 25.2% of total. Strongest in Asia and North America.

MAIN ALLIANCE

WORLDPARTNERS 50% owned by AT&T, 30% by KDD of Japan, and 20% by Singapore Telecom.

NONEQUITY PARTNERS: Telstra OTC Australia, Korea Telecom, Telecom New Zealand, Hong Kong Telecom, Unitel of Canada, and the Unisource consortium.

SPHERES OF INFLUENC



oviding basic voice and messaging ser-
es to large numbers of consumers
ound the world," says consultant Gra-
m Johnson of Britain's Analysys Ltd.
A global phone company may sound
landish in an industry still dominated
state-owned monopolies. But it's a
ncept whose time is coming—fast.
erywhere, nations are privatizing and
egulating their phone markets. End-
foreign-ownership restrictions is the
xt step. U.S. Vice-President Al Gore
s proposed dropping the restrictions,
ich currently limit foreign ownership
U.S. phone companies to 20%, within
year, if other countries open their
rkets and do the same.

ME OF RISK. And they surely will,
ler pressure from both business and
idential customers. British Telecom,
ording to chief strategist Richard H.
rriott, plans to start with multina-
ials, move on to midsize and smaller
npanies, and then sign up consumers.
and AT&T have already started creep-
into foreign consumer calling mar-
s. AT&T owns a stake in phone com-
nies in the Ukraine and Venezuela
l is expected to bid against BT for
nses to build local networks in India.
h companies are also eager to tap
huge Chinese market. "Everything
d of pales next to China," says AT&T Chairman Robert E. Allen.

Another route into the consumer market is via services pitched at international travelers. AT&T's WorldConnect program allows consumers to place calls to and from more than 75 countries over AT&T lines. WorldPlus lets travelers set up an AT&T account to pay for local calling in more than 40 countries, with the billing in whatever local currency they happen to choose. BT says Concert, its joint venture with MCI, plans similar services.

A decade of combat in deregulated markets gives the two giants an edge over rivals

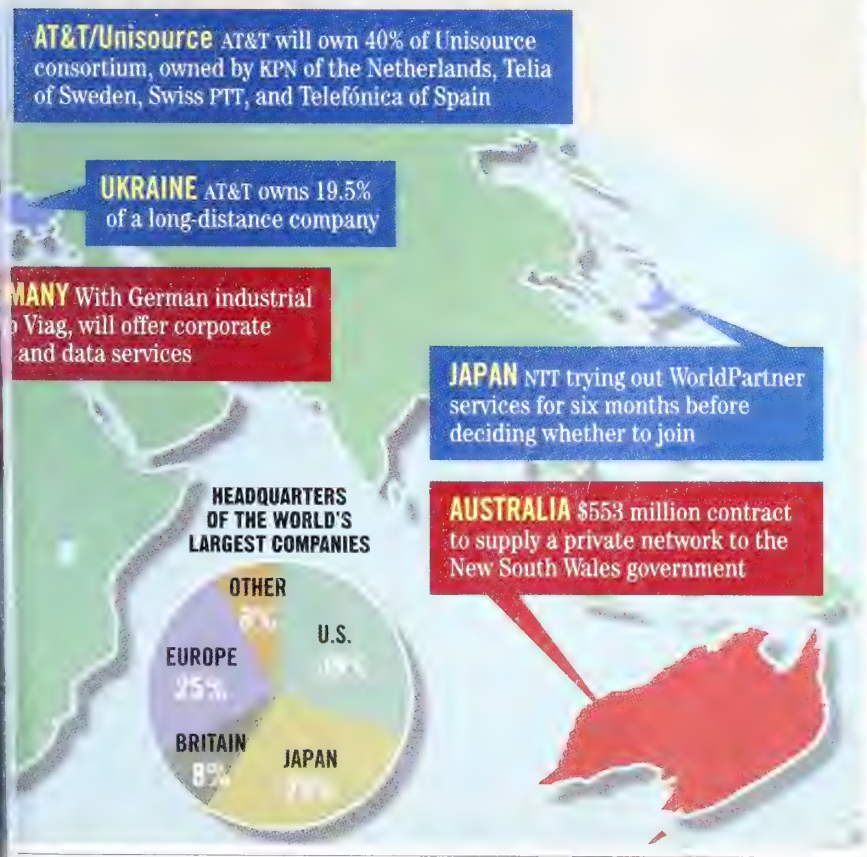
Stringing networks to all those distant places would be impossibly expensive. Therefore, AT&T and BT are squaring off against each other in what looks like a variation of the popular global board game Risk. Through various alliances, partnerships, and consortiums, each company is trying to get a presence in as many countries as possible. "The game is how you develop your pieces around the world," says Vallance. "For once the squares are taken by rivals, your options are constrained." Especially important are the countries that have the greatest concentration of large companies (see map).

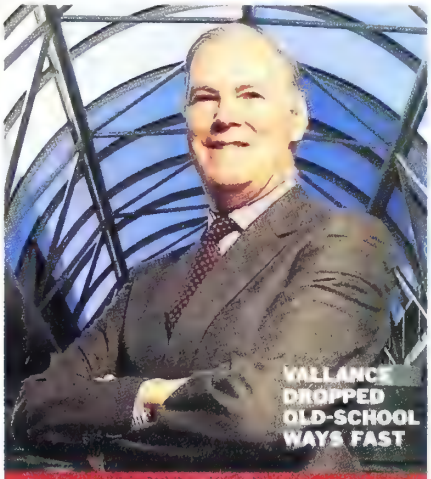
Concert, the BT-MCI team, has signed up Norwegian Telecom, Tele Danmark, and Telecom Finland as partners or allies. On its own, BT has deals with partners in Germany and Spain.

AT&T's WorldPartners alliance, formed in May, 1993, includes Kokusai Denshin Denwa (KDD)—Japan's largest international carrier—Singapore Telecom, and several other Asian carriers. In December, it announced a plan to form a joint venture with Unisource, a consortium owned in equal parts by Dutch KPN, Spanish Telefónica, Swedish Telia, and Swiss PTT.

Both BT and AT&T are now courting Belgacom, the Belgian state carrier, whose government owners are seeking partners. Between them, AT&T and BT have also approached France Telecom, Deutsche Telekom, STET of Italy and others, in recent years. "What's important over the next four to five years is

neir domestic strongholds on either side of the Atlantic, AT&T and British
n are making deals and alliances to carve up world phone markets





BRITISH TELECOMMUNICATIONS

1994 INTERNATIONAL REVENUES $3.1 billion, 14.3% of total. Strongest in Britain, North America, and Nordic countries.

MAIN ALLIANCE

CONCERT 75% owned by BT, 25% by MCI.

DISTRIBUTION AGREEMENTS with Norwegian Telecom, Tele Danmark, Telecom Finland, and Nippon Information & Communication.

DATA: ANALYSYS LTD., COMPANY REPORTS

that we expand as quickly as possible around the world," says AT&T's Allen.

The two megacarriers have very different approaches, however. BT believes that a close partnership will allow each member to leverage the other's corporate contacts, and keep tight control over all aspects of the services offered. Concert is 75% owned by BT and 25% by MCI. There is speculation that BT might offer 25% to a large Asian partner, reducing its share to 50%, but that would be it. All other Concert carriers are local distributors with little say over the system's direction.

AT&T's WorldPartners is building a very different alliance, in which all members have a say. AT&T has a 50% stake, KDD 30%, and Singapore Telecom 20%. Some 10 other carriers are nonequity partners. It works something like a franchise arrangement, with each member agreeing to market AT&T's Worldsource services and software and use the same technical standards for their own networks. The arrangement has the advantage of size: Combined service revenues of AT&T and its global partners top $70 billion a year, nearly twice the amalgamated sales of BT and MCI.

But both groups have their fans. "We really liked how AT&T is partnering with the PTTs rather than building their own infrastructure," says the telecom director of a U.S.-headquartered manufacturer. "There are things that those countries and companies can offer that we can learn from." But Concert customer Jeff Marshall, telecom director at Bear, Stearns & Co., says he was skeptical of WorldPartners: "It doesn't come together like a single entity. That's where Concert is unique."

"SEAMLESS." Established in June, after a year of planning, Concert has other advantages. Lehman Brothers Inc. analyst Ravi Sarathy figures it is at least 12 months ahead of WorldPartners in winning approvals from European and U.S. regulators and six months ahead in meshing its parent companies' technologies. "If you want to buy seamless service, they're the only ones who have got it," says Nick White, vice-chairman of the International Telecom Users Group. "They're just going to have to make sure they exploit that lead."

CHINA CARD

AT&T is eager to tap several go-go Asian economies. But "everything kind of pales next to China"

WorldPartners, meanwhile, has a unique problem. AT&T may offer its partners access to the richest market in the world—the U.S.—but its sheer size causes local players, especially in Europe, to fear a loss of autonomy if they enter a joint venture. Analysts say AT&T is doing better lately at dealing with smaller fry, but it long resisted taking anything but a controlling interest in any deal. That stance caused talks with France Telecom and Deutsche Telekom to fail in late 1993. Now, AT&T has softened. In December, it announced plans for a joint venture with the Unisource group. This time, AT&T will take just a 40% stake. "We've learned to be more flexible," says Allen. "Sharing risk is very important."

Many multinationals would just as soon neither AT&T nor BT b come the clear-cut winne Customers are in the hap position of playing tw wealthy suitors against ea other. Reuters Ltd., for e ample, which has operatio in 149 countries and spen some 10% of its budget telecommunications, wo rely on a single carrier. like competition. I think co petition breeds a better pr and better products," sa Ian A. McCurrach, Reute senior vice-president American operations. Jo Sale, European netwo product manager at Electr ic Data Systems Corp., tal a similar view. He's a chairman of European Vir al Private Network Us Assn. (EVUA), representi 45 big corporations. "Ther no doubt [BT-MCI] have t leading technology in E rope," he says. But AT&T a its partners have been m aggressive on price. In Ap EVUA signed up both com nies and their allies.

HAMSTRUNG. So why are more phone giants comp ing? Nippon Telegraph Telephone Corp. (NTT), Fra Telecom, and Deutsche T kom would like to, they're still state-owned— hamstrung by regulations. "They c operate like flexible commercial organ tions," says Martyn F. Roetter, telec munications analyst at Decisions Reso es Inc. BT has "a 10-year head sta concedes Deutsche Telekom board m ber Carl-Friedrich Meissner. "They Mrs. Thatcher to kick them early."

Allen and Vallance have both sp a decade in deregulated markets now face hundreds of competit on their home turfs—including each er. AT&T won a license to operate a common carrier in Britain in Aug And BT gained regulatory approva offer phone services in the U.S. a Feb. 2, 1995.

The two chief executives have pl in common. Both are lifelong comp employees who rose up in monop phone businesses. Vallance, 51, follo in the footsteps of both his father mother as an employee of Britain's G eral Postal Office, BT's former ow In fact, he was criticized for bein product of the old school when he came chairman in 1986. But he pro

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otherwise: slashing staff by 42%, importing new top managers, and adding needed marketing and strategic skills.

Allen, 60, an Indiana native who took over as chairman in 1988, has not only cut staff but also diversified with a vengeance—buying computer maker NCR Corp., investing in multimedia, and shelling out $12 billion in stock for McCaw Cellular Communications Inc. in September. That last acquisition briefly made BT the largest AT&T shareholder. Back in 1989, BT bought 22% of McCaw for $1.37 billion. It sold the shares in February for a profit of $318 million.

ANOTHER WALL DOWN? The dealmaking is far from over. Allen and Vallance have both been in Germany recently. Europe's largest telecom market remains closed, but regulators hint they may open it before the scheduled date of Jan. 1, 1998. In January, BT announced an alliance with Viag, a German conglomerate that has 4,000 km of fiber-optic cable laid in Bavaria. By April, the two companies plan to start a joint venture to offer Concert services. AT&T is holding talks with RWE, an electric-power company that also has 4,000 km of fiber in place.

Asia is another big battlefield. While BT has no Asian carriers as partners, AT&T has several alliances. But the top prize—Japan's NTT, the world's largest phone company—is nonaligned. BT has signed a deal with Nippon Information & Communications (NI&C), a joint venture between NTT and IBM, last July. And, in early March, AT&T announced that NTT would offer WorldSource products in Japan for a six-month trial. But neither deal indicates a long-term arrangement for BT or AT&T. In the end, NTT could even decide to pair up with both.

If that seems unlikely, remember that telecommunications and other high-tech markets are rife with competitors who are also customers and partners of each other. "The information-technology business isn't cola wars," says Barry W. Sullivan, head of market development at EDS. He should know: After being beaten by AT&T on a big contract for Delta Air Lines Inc., EDS turned around to join AT&T on a winning bid for a huge Xerox Corp. project. "This is a complex business: The idea is to have situational allies and no enemies," says Sullivan. Hmmm. Does this mean Vallance and Allen could eventually have their own *tête-a-tête?*

By Julia Flynn in London and Catherine Arnst in New York, with Gail Edmondson in Paris and bureau reports

THIS WOULD-BE POWERHOUSE IS SLOW TO POWER UP

Deutsche Telekom and France Telecom are Europe's two largest phone companies. So when they announced plans last June to buy a 20% stake in Sprint Corp., the No. 3 U. S. long-distance carrier, industry observers predicted a $78.1 billion powerhouse-in-the-making that could match AT&T or British Telecommunications PLC. If it ever gets off the ground, that is.

U. S. and European regulators say they are unlikely to endorse the deal unless both France and Germany open their telecom markets to more competition ahead of the European Union's 1998 deadline. But French politicians and their German counterparts fret about the sharp pain that such competition would inflict on their inefficient state monopolies. Those same monopolies, though, are losing ground daily to unregulated carriers.

"LOSING TIME." Deutsche Telekom and France Telecom have already stumbled badly with their first alliance, Eunetcom, which was formed in 1993 to offer network services to multinationals. Infighting and the lack of a clear strategy made Eunetcom ineffectual, analysts say. The two carriers announced a broader venture in December, 1993: Atlas, meant to subsume Eunetcom and integrate both carriers' business services. But France Telecom and Deutsche Telekom have yet to win EU approval for Atlas. "We are losing time and business," admits a France Telecom executive. "Every day, I lose customers to BT."

The Sprint alliance, if it goes through, could turn that around. Sprint already has global data and electronic-mail networks in place. Those would be combined with Eunetcom's high-speed network that links up hubs throughout the U. S. and Europe. Sprint, for its part, is confident of success, however. "The issue is not whether the deal will go forward. The issue is what condition will be placed on it," says John R. Hoffman, Sprint's senior vice-president for external affairs. He thinks that, in the end, the EU will say yes—but it might limit how much long-distance traffic the two European monopolies are permitted to funnel to Sprint.

But government approvals alone won't guarantee success. The alliance's organization is so complex that some industry observers wonder how it will ever work. Each carrier will be the sole provider in its home market. Together, the three will run a regional group for Western and Eastern Europe, while the European partners will service the rest of the world.

While those details are being worked out, France Telecom and Deutsche Telekom continue to pressure their regulators to delay opening markets. Maybe they should drop the effort. The sooner they start competing at home, the sooner they develop the skills to tangle with AT&T and BT around the world.

By Gail Edmondson in Hanover, with Linda Bernier in Brussels and Kevin Kelly in Chicago

SPRINT'S FRANCO-GERMAN ALLIANCE

PROS	CONS
• Creates a telecom entity with combined revenues of $78.1 billion, large enough to compete with AT&T and BT-MCI	• The pact may be sidetracked by officials in Europe and the U.S., who see potential regulatory problems
• Gives all three companies clout in the market for global networks	• The three partners will have to prove they can get along
• Infuses $4.2 billion in new capital into Sprint	• European carriers may not have competitive skills

DATA: BUSINESS WEEK

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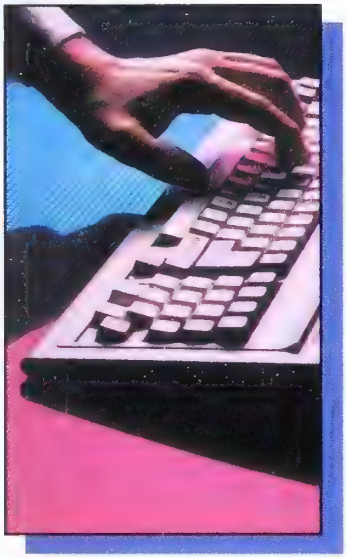

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Daytona Beach, Florida

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BEATING SWORDS INTO CELLULAR PHONES

CELLULAR-PHONE OWNERS may soon benefit from the end of the cold war. Onetime foes Electrotechnical University of St. Petersburg and Sandia National Laboratories in New Mexico are helping Superconducting Core Technologies Inc. in Golden, Colo., develop materials for more sensitive receivers for cell phones and, eventually, satellite dishes. It's the first fruit of the Industrial Partnering Program, which Congress enacted last year to find work for Russian scientists not related to weapons.

SCT is working on combining two types of thin films onto one receiver chip. One type is superconducting when chilled by a tiny compressor, making it sensitive to faint cellular signals. The other film type is ferroelectric—a property that makes signals travel through it more quickly when a voltage is applied. A change in the voltage alters the resonant frequency of the receiver, so it picks up desired signals with great precision and filters out noise effectively. SCT plans field trials this summer.

A SEEING-EYE HELPER FOR THE INTERNET

THESE DAYS, A SELF-DESCRIBED SURFER IS MORE LIKELY to bask in radiation from a computer screen than from the sun. But not people with extremely bad eyesight. Often, they can make out words only by squinting hard at each successive, enlarged letter. Tackling the Internet is frustrating, at best.

That's why Elizabeth Goldring, an almost blind poet and director of exhibits at Massachusetts Institute of Technology's Center for Advanced Visual Studies, was elated to see the word "sun"—the first total word she had been able to read in years. It was projected onto her retina by a scanning laser ophthalmoscope, or SLO. Essentially a miniature projection-TV system, the SLO is a $100,000 research tool for probing inside the eye. But to Goldring, it promised a gateway to the Internet, if it could be hooked up to her computer.

Robert H. Webb, the scientist at Schepens Eye Research Institute in Boston who invented the SLO a decade ago, had his doubts. But using the SLO, Goldring saw words and images transmitted over the Internet into a computer. Most visually impaired people, Webb says, will have to wait for goggle-size SLOs with lenses made from semiconductor lasers. The technology exists, he says, but not a market. "If the video-game people would just grab this," he adds, "it would take off like a rocket."

ONLY YOUR FAT CELLS KNOW FOR SURE

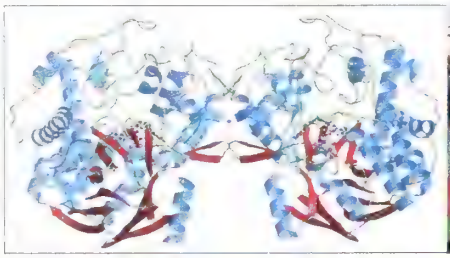
WHEN IT COMES TO HA color, the best do-or-dye e forts haven't gotten to t root of the problem. Biote startup AntiCancer Inc. San Diego has a new scher for zapping those unsight grays: Its scientists inse color into fatty drople called liposomes, which c be applied to the scalp in shampoo, says Andrew Perry, president of the co sumer products unit. F searchers discovered t technique while developing treatment for chemotherap related hair loss.

The liposomes attach the selves to the hair follicle sh and deliver the pigmen which could range from co ventional blond and brown eye-popping pink or gre The company hopes to sc start clinical trials on huma and expects few regulato hurdles, since the prod never enters the bloodstrea Meanwhile, in the laborato AntiCancer scientists are ready grappling with th next big challenge: a ge therapy that would prev hair from turning gray in first place.

SOME COLD WATER ON HOT-ENZYME R&D

A DECADE AGO, SCIENTISTS were thrilled by the discovery of single-celled creatures that thrive in hot volcanic vents under the sea. By learning how these hyperthermophiles remained stable above 100C—temperatures lethal to all other life forms—they hoped to create sturdy industrial enzymes that would make everything from sweeteners to cleansers. Now, researchers unlocking the critters' secrets question that approach.

Last fall, for the first time, University of Georgia biochemist Michael W. Adams and California Institute of Technology chemist Douglas C. Rees elucidated the atomic structure of an enzyme in a typical hyperthermophile, called *Pyrococcus furiosus*. Using a computer to correlate results from amino acid sequencing with data on the protein's crystal structure, they made a rendering of how characteristic protein structures are distributed in the enzyme (above). The big surprise: "There are no magical structures or new chemical reactions that account for the enzyme's stability," says Adams. Rather, its unique behavior arises from "an ac cumulation of subtle effects"—including how the 10,000-odd atoms are arranged. Adam now thinks it will be hard t rejigger conventional enzymes to with stand heat. T obtain enzym that are active and stable a such temperatures, scientis will have to find them in na ture and purify them.



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OK, now floor it.

ogical? Of course. But all too n, organizational change efforts o reach much below the manage- t level. So the goal of improved ormance is never achieved.

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HEALTH CARE

MEDICINE'S NEW WEAPON: DATA

Information systems improve treatments–and save money

For many Americans, medical innovation is synonymous with gleaming high-tech products: million-dollar scanners that look as if they belong in NASA's Mission Control, vials of gene-spliced miracle drugs, titanium-alloyed instruments that can perform surgery through a wormhole incision.

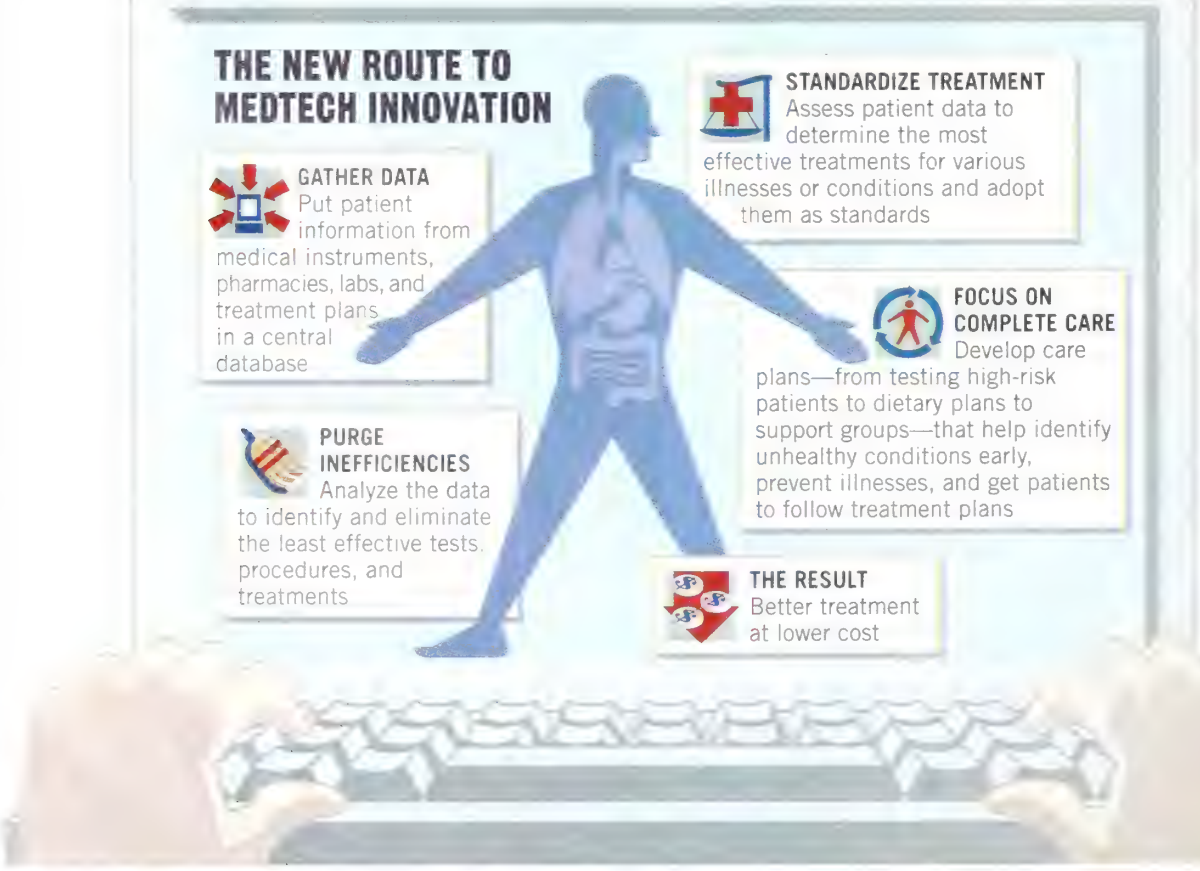
Today, though, health care's new power brokers—HMOs, buying groups, and other managed-care organizations—have a different vision of innovation. Kaiser Permanente, the nation's largest and oldest HMO, recently took what it considers an innovative step toward improving and prolonging the lives of diabetics. The technology: a simple computer database.

Kaiser combed through disconnected data from its billing, admitting, and lab departments, and a survey. It then created, for the first time, a registry of the 84,000 diabetics among its 2.4 million Northern California members. Now, Dr. Joseph Selby, Kaiser's associate director for health-services research, is using that resource to evaluate Kaiser's performance in serving those patients. The preliminary word—not so hot.

Although diabetes is the leading cause of blindness, Selby discovered that 15% to 20% of Kaiser's diabetic patients aren't getting their eyes checked routinely. Meanwhile, standard office visits aren't doing enough for patients battling complex problems such as obesity and stress, which make the diseas worse. Kaiser plans more aggressiv eye-screening programs and may set u patient support groups and more acce to specialist nurses. "We're leveragin our data to improve patient care," l says.

HUGE PAYOFF. And cut costs. The U. spends more than $100 billion annual on the disease, so more effective strat gies promise a huge payoff. And b 1996, Selby hopes to have registries f cancer, AIDS, and other major disease

Leveraging data to more cost-effe tively treat patients is today's new inn vation imperative. Everywhere you lo in medicine, providers are aiming f the seemingly contradictory goals of cu ting costs and improving care. The ke Better information systems, which why the industry is expected to spe more than $6 billion on them in 1996. the meantime, the demand for all b the most vital, more traditional medi technologies has fallen off sharply. Pr dicts Dr. David M. Lawrence, chief ex utive of Kaiser Foundation Health Pl "We've gone from celebrating care th benefits people at the margins," su as hugely expensive surgeries for a fe to seeking technology that "will allow to provide superior care at the low



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total cost for populations of people."

It is the shift to a systemwide focus, notes Bruce Eichhorn of Hewlett-Packard Co.'s medical product group, that has brought "gut-wrenching change" to the medical technology industry. It's putting the squeeze on many entrepreneurs, giving new clout to older, bigger players, and creating myriad opportunities for savvy infonauts and marketers who understand that even the most exotic technologies must be packaged as cost-effective—or they won't fly. "Manufacturers must come up with innovative applications," says Steven G. Sudovar, senior vice-president of drugmaker Hoffmann-La Roche Inc. "And the key is information management."

Hoffmann-La Roche is acting on that principle. The Swiss drug giant has a 10-year-old, powerful antibiotic called Rocephin, for example. It's not cheap. But for problems such as ear infections, sometimes just one shot can be a cure. Trouble is, doctors often try mild drugs first, only turning to potent stuff if the patient doesn't respond. Or some docs figure if Rocephin once a day is good, twice is better. Both scenarios unnecessarily add costs.

GIZMO GLUT. To keep the 1,100-facility VHA Inc. buying group's business, Roche's Sudovar offered what he calls "risk sharing." He made a pitch to VHA that Rocephin, used properly, could save money by eliminating other medications and excess office visits. Roche has agreed to use its sales force to discourage physicians from injecting more than is needed for a patient. In turn, VHA, using its data systems, helps Roche identify doctors who need that guidance. "Twice a day is not good medicine, and it's not good business," says Sudovar. Adds William J. Elliott, senior vice-president for supply-chain management for VHA, "Everything has to be focused around reducing cost of care." Across the board, he says VHA members are scouring their systems for inefficiencies, from wasted surgical sutures to duplicative forms.

The incentive for such action is managed care's growing reliance on capitation—or paying primary-care doctors and hospitals a set rate per patient covered, no matter how much care is required. Hospitals used to compete for patients based on things like how many heart transplants they performed or how many magnetic resonance imaging scanners they owned. But with employer demands for capitation, providers overnight went from making more money by doing more procedures, to losing money for every unneeded procedure performed.

Providers are first modernizing back-office functions, such as accounting and inventory—and finding surprising opportunities. "We didn't even know we didn't need all these new gizmos," says Kim Byrd, assistant director of materials management for St. Joseph's Medical Center of Stockton, Calif. In just one case, Byrd and supplier Abbott Laboratories analyzed St. Joseph's catheter supply orders. Byrd found that the hospital was buying multiple products in each of 18 different lines. And the staff wasn't using catheters uniformly, so patients had catheters replaced unnecessarily, which raised their risk of infection. St. Joseph's standardized on one or two products per line, then educated the staff about optimal procedures. The hospital should save $165,000 over the next five years—and improve patient care.

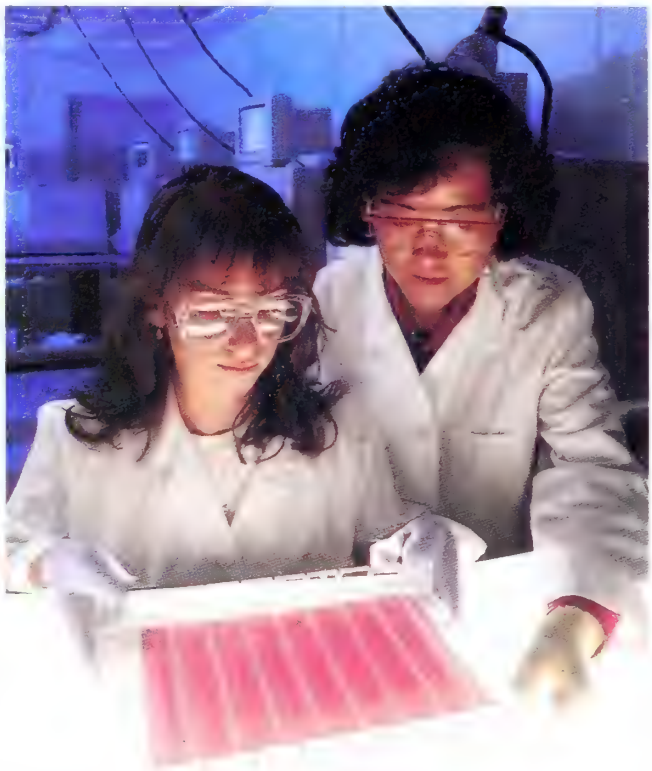
Networking systems to link the cost and effectiveness of care, hospitalwide, is a more complex challenge. A patient in an intensive care unit, for example, may be hooked up to a dozen different devices—heart monitors, infusion pumps, ve tilators, blood pressure and gas mon tors. Not long ago, such a set-up wou generate several hundred pieces of p per manually filled out and shipp around the hospital by "sneakernet" (l erally by foot). Now, "the devices ha to change, the architecture has change, and the development proce has to change," says Eichhorn.

In that vein, HP is rolling out "Careview" system, which provides workstation at the patien bedside that records readin from all instruments attach to the patient, making all re vant patient records availa in one spot, updated constant That saves money by cutti staff time spent in recordi data. There's no more waiti for lab results because a k sneakernet connection is or coffee break. And such thir as warnings about patient dr allergies can be built in to p vent unneeded complication

Over time, that growing r ervoir of data becomes ev more valuable. A provider find out precisely how the tient was treated, how differ patients with the same diag sis were treated, complicat rates, even how individual d tors are performing. Since pr tice patterns can vary trem dously by geographic regi systems like this help provid bring practices in line with most proven methods. "Up til this point, no one was e able to measure what work notes HP marketing mana Jill Glashow Padwa.

Eventually, these infor tion systems will form a con uous feedback loop that p pels other kinds of innovat Kaiser is collaborating w San Diego-based Sequ Therapeutics, a biotech outfit look for cures for diabetes by understa ing its genetics. Sequana hunts genes by starting with inheritance p terns in real patients. Now, instea putting ads in the paper, says Sequ CEO Kevin J. Kinsella, "at the flick computer keyboard you can iden everyone with diabetes" that Ka covers and have access to records those patients that are far more able than a given patient's memory.

This new innovation paradigm, h ever, is leaving many small player the $42 billion device business in



GENE SLEUTHS: Sequana scientists will tap Kaiser's patient records to study the DNA of diabetics

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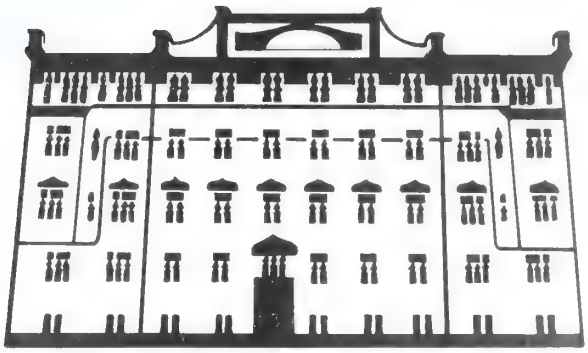

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lurch. "[Buyers] won't give you any margin, flexibility, or room to operate. Vendors end up without money to innovate," laments Joseph Mandato, chief executive of Origin Medsystems, a maker of minimally invasive surgical devices.

To make matters worse, managed-care organizations want to cut fewer, bigger deals, which would favor larger vendors. Robert W. Croce, franchise chairman for Johnson & Johnson's Ethicon Endo-Surgery division, for one, has won huge market share in the minimally invasive surgery market for the past several years—not so much with new technology, but with add-ons such as Ethicon's state-of-the-art training facilities. Ethicon has even spent several million on a "virtual reality" surgical simulator. "People are looking for who can deliver the goods in a new way," says Croce. And having surgeons trained properly up front is more economical for providers in the long run.

"GOOSE BUMPS." Meantime, venture capitalists are far more selective in their medical investments. Today, they are moving toward funding software-oriented medical information system developers. Says Russell Hirsch, a partner with the Menlo Park (Calif.) Mayfield Fund: "It gives me goose bumps to think of the value resident" in the information such systems can capture. He's working with entrepreneurs to come up with programs to standardize patient care, and other data-leveraging approaches.

Still, novel, breakthrough products can find takers. Greenleaf Medical Systems, a small Palo Alto (Calif.) maker of sophisticated devices that measure hand function, for example, has seen a surge in revenues in the past two years because its $20,000 to $40,000 smart machines fill an important niche: Worker's compensation claims are soaring for repetitive motion injuries to the hand, and Greenleaf's devices can help providers win contracts to evaluate workers and get them back on the job.

Both payer and patient win when a condition is appropriately treated or prevented, rather than allowed to escalate because of disorganized, or pocket-lining patient management. In the long run, preventing a disease or nipping it in the bud is always the cheapest path. Nevertheless, some critics argue that managed care is still not effectively embracing some potential cost-saving technologies. That may be an unfortunate but necessary aspect of playing catch-up on the computer side. When health-care information management matches the sophistication of those Mission Control scanners, medicine will be ready for more quantum leaps.

By Joan O' C. Hamilton in San Francisco, with bureau reports

FOOD

WILL SO MANY INGREDIENTS WORK TOGETHER?

Philip Morris pulls its food operations into one Kraft empire

Not long ago, salespeople from all four major units of Kraft General Foods Inc. would converge on Ted E. Tomczak's suburban Chicago store at the worst possible moment. Representing Kraft, General Foods, Oscar Mayer Foods, and Maxwell House, they would pester the harried shopkeeper for orders just as a freezer broke down or a big shipment arrived. "I'd be foaming at the mouth," Tomczak says.

Now, Kraft wants to make his job simpler. With a new management team and a new name, Philip Morris Cos.' $17 billion North American food division is pulling itself together. Seven years after the merger of Kraft and General Foods, the independently run fiefdoms will finally be unified. The new Kraft Foods Inc.—no more "General"—will present a single face to the 26,000 stores it calls on. With one headquarters and one sales force by the end of 1995, Kraft's relations with buyers and stores will never be the same. Tomczak, whose Asbury Street Market in Evanston, Ill., has been among the first to get the new system, likes what he sees so far: "You don't have all these people bothering you."

An Oscar Mayer rep used to dealing with the deli case may be ill-suited to peddling salad dressing and breakfast cereal

MORRISON: UNDER PRESSURE TO PRODUCE FATTER MARGINS FAST

TEAM SPIRIT. For Robert S. Morrison, CEO of Kraft Foods since December, the rewards seem obvious. By melding the company's 3,500-strong sales force into a single unit, he can send just one representative to each store instead of a handful, boosting efficiency. Rather than focusing on a single brand, sales managers will be reorganized into 300 marketing-support teams, each devoted one chain of stores. That should h coordinate the marketing and pron tion efforts. But streamlining at t store level could cause its own pr lems: The Oscar Mayer salesperson w lavishes attention on the deli case m be ill-suited to peddling salad dress and breakfast cereal. With each rep h dling a wider array of goods, sm brands and line extensions could lost in the shuffle.

The changes at Kraft stem from s searching among suppliers faced w new demands from their grocery c

Now, Morrison can get more bang from his promotional buck by pooling resources among brands

ers. As retailers have learned to an- e scanner data and have upgraded own highly profitable store brands, 've become tougher sells for nation- rands. To win retailers' allegiance, t and its rivals must provide better keting support, tailored to each e. "It's no longer one-size-fits-all," James J. Jermann, senior vice-pres- t at Hannaford Brothers Co., a gro- chain in Scarborough, Me.

ut how to accomplish that? ConAgra the only other U. S. food outfit of a lar scale, takes an opposite ap- ch, with more than a dozen separate forces. That allows each operat- company to focus on its own ness—and jump at opportu- s. "Leverage in the market- is important, but we have ways to do this that are far er than trying to have one ive sales force," says Leroy ochmann, head of ConAgra's our Swift-Eckrich, which etes with Oscar Mayer. But ison says ConAgra is ineffi- : "They're paying an awful f money to have a lot of du- cion," he says. Quaker Oats as moved toward Kraft's ap- h recently, as has Procter & ble Co., which Morrison s as the closest model.

r Kraft, a unified sales force account-based marketing are y new ideas: Former execu- recall suggesting them in But under Michael A. Miles, stepped down as Philip Mor- EO last year, Kraft moved ously. Now, his successor, Geoffrey ble, wants fast action. Kraft's oper- margin of 14% looks good for a company, but Bible is used to much r. Last year, Philip Morris' tobacco tions boasted margins of 34%. For growth in food, Bible recently analysts, Kraft must capitalize on huge manufacturing, marketing, ales-force synergies that have been n our grasp."

HED ORDERS. Morrison knows he's the gun, along with boss James lts, who heads worldwide food at Morris, and top lieutenant John owlin, chief operating officer of "The theory is right, but it's not e to implement," notes S. Leigh , an analyst at S. G. Warburg & Co. Morrison knows that better than anyone: In 1990, as the new head of Kraft Canada, he merged the Canadian sales forces of Kraft and General Foods. Three weeks later, irate customers were at his throat over botched orders. "I had to personally go and make sales calls to hold hands," Morrison recalls ruefully.

A U. S. reorganization is an even bigger task, but the transition won't be so abrupt. Kraft developed a separate marketing team for Wal-Mart Stores Inc. four years ago. It combined the General Foods and Maxwell House sales forces last year. And the year before, it merged Oscar Mayer and Kraft sales.

Each Kraft sales rep will visit fewer stores, and most will serve a single retail chain, rather than different customers in the same neighborhood. With an estimated 30% more time in each store, they'll be able to set up more displays and build better relations with store managers. That will lead to higher volumes, Morrison predicts. Yet even he admits that Kraft will probably lose some expertise in individual brands.

He intends to compensate with unbeatable account-service teams. Every major retail chain will have a Kraft category manager assigned to each of its buyers, with a senior Kraft sales executive supervising. Support staffs in 21 districts, down from more than 70, will help the teams manage food categories and assist with logistics, coordinating shipments so that different brands arrive on the same trucks. The big advantage: Kraft will combine the trade-promotion dollars that were previously fragmented among categories and brands. For instance, Kraft plans to install thousands of refrigerated cases to feature its products in prominent end-aisle displays, a steep investment feasible only if all its refrigerated brands pool their resources. In the past, with each brand pursuing its own strategy, getting them to commit promotion dollars at the same time was tough. And now, Morrison can add to the mix some smaller brands that wouldn't have had the budgets to run promotions on their own.

"FAKE IT." Kraft's high-service strategy won't be cheap, and that will keep competitors from duplicating it, Morrison says. But it also exposes Kraft to risk in an era of rampant cost-cutting. And if brand managers subordinate the interests of individual products to the larger goal of multibrand promotions, they might cede too much opportunity to rivals such as ConAgra. The transition to a single sales force may well take longer than expected, especially since Kraft's computer systems aren't close to being integrated. While retail customers will get a single order sheet and a single accounting of promotional dollars, Kraft will be changing systems on the fly. But, says Morrison, "we can fake it. We can have different backroom systems, and the customer doesn't see it." At P&G, though, a similar integration took years and led to at least a few high-level defections.

The trade won't stand for disruption, but many top retailers say it's about time Kraft made this move. "They were really sending too many people into our stores. It has all the right vibes for us," says Thomas S. Haggai, CEO of IGA Inc., a chain of 2,500 independent grocers. Kraft's toughest judges will be store managers, such as Tomczak of the Asbury Street Market, who have no time for trouble. Morrison can be sure that if his new system fails to perform, the nation's Tomczaks will let him hear about it loud and clear.

By Greg Burns in Northfield, Ill.

WHAT'S COOKING AT KRAFT

	ESTIMATED 1995 SALES BILLIONS OF DOLLARS	PERCENT RISE FROM 1994
KRAFT SINGLES, VELVEETA, OTHER CHEESE	$2.9	9%
MIRACLE WHIP, PARKAY, OTHER GROCERIES	2.4	5
OSCAR MAYER AND LOUIS RICH MEAT	2.3	6
ENTENMANN'S AND FREIHOFFER'S BAKED GOODS	1.6	7.5
POST AND SHREDDED WHEAT CEREALS	1.5	6
MAXWELL HOUSE, SANKA, OTHER COFFEE	1.3	10
JELL-O, KOOL WHIP	0.8	6
KOOL-AID, TANG, OTHER BEVERAGES	0.8	3

DATA: S.G. WARBURG & CO.

EDITED BY AMY DUNKIN

WEB-WEARY? LET YOUR BROWSER DO THE WALKING

Of all the sprawling streets and neighborhoods shaping the global Internet, the ever-expanding World Wide Web is becoming the chic high-rent district. The Web is the Internet's dashing side, complete with sound, nifty graphics, even video. Visitors can sample music from Windham Hill or buy a bottle of wine. They can download tax forms or read transcripts from the O.J. Simpson trial. Businesses are also going gaga over the Web. Thousands of companies are creating so-called home pages (posted on computers known as servers), containing product information, pictures, and promotional come-ons.

Making it all work seamlessly is a new breed of software called Web browsers, which help people explore the Web. Browsers exploit a powerful software technique known as "hypertext." Web pages and documents contain links or shortcuts that can whisk you between a variety of information sources. With a browser, you click a mouse on words, phrases, or photos that have been highlighted. By doing so, you can retrieve and display those documents or digitized pictures without needing to learn complicated commands in the arcane UNIX operating system.

For example, from the home page at the Interactive Employment Network, you can choose such hypertext links as career fair calendar, salary guides, and résumé writing tips. As your computer retrieves these links, it may be reaching out to servers located halfway around the planet. At times it seems so, too: If you don't have a fast modem connection of at least 14,400 bits per second and lots of memory, you'll be doing more waiting than browsing.

SOFTWARE

Browser programs are rapidly becoming more accessible. Many programs for Macintosh and Windows can be downloaded for free. And in January, Prodigy became the first major online service to offer a browser to members.

The granddaddy of multimedia browsers is Mosaic, a concoction of the National Center for Supercomputer Applications at the Univ sity of Illinois. Introduced 1993, Mosaic was made f to anyone who wanted download the program the Net.

Mosaic spawne gaggle of imitat some with dir lineage. Last y the University Illinois signe agreement w Naperville (based Spyg to develop distribute c mercially hanced vers of Mosaic. such scion, ca AIR Mosaic, packaged in S tle-based Sp Internet in a Box (Users can choose fro list of service provide companies that connect yo the Net—preselected by S This makes it easier for n es to get up and runn Choosing a service prov on your own is best lef those who are more com able with PCs: You'll hav fill in the IP address, netm and domain, among othe chie terms.

DIFFICULT JOB. Indeed, browsers are relatively t ble-free once you're conne to the Net. But some, as SuperHighway Acces Windows, can cause graines during installa The problem: making sur software is in sync with service provider.

Meanwhile, Netscape munications, co-founded b developer of NCSA Mosaic veiled a powerful brows its own last year, called scape Navigator. The pro is free over the Net; folks

PHOTO BY ANY FRISON

it a warranty and upgrades st fork over a $39 registra- fee. Most Netscape users uire separate software to nect to an Internet access vider. But Netscape is be- bundled as part of The nsom, a New York com- rcial online service.

ndeed, browsers are dis- uted in myriad ways. ne are being packaged n books on the Internet. ers are being built direct- nto operating systems. IBM ndes WebExplorer in its OS/2 Warp. The browser helpful buttons and pull- n menus but will not k outside the Warp envi- nent. Microsoft plans to nde a Spyglass browser s upcoming Windows 95 rating system.

ther service providers ply customers with pro- tary browsers. Since e programs—Prodigy's or com's NetCruiser—are ntained by the same com- es that provide Net ac- they may represent the lest way for neophytes art navigating the Web. des, the programs are with service member- and connecting is rela- y painless. The downside to the Netcom and Prodigy approach is that you are giving up the flexibility to try out different service providers. Moreover, for now, most Prodigy subscribers can only sign on at a top modem speed of 9,600 bits per second—so retrieving data is agonizingly slow.

Each browser analyzed by BUSINESS WEEK and National Software Testing Laboratories, both owned by McGraw-Hill, does a nice job at handling its most basic function: namely to help keep track of where you've been during a surfing session and to let you mark sites so you can find your way back again. The programs let you place a "bookmark" or add a site to a "hotlist." That means you won't have to remember the Web address, or URL (for uniform resource locator). These are lengthy strings of characters with http:// always at the beginning.

The best browsers have tricks up their sleeves to cut the tedium

Still, subtle differences distinguish one browser from another. Speed is critical, and the best browsers in our tests use clever techniques to hurry things along. When you're waiting for a huge file to arrive with Netscape, you can watch the graphics materialize and scroll down the screen before all the bytes of data have shown up. Netscape also keeps you well-informed on the status of a download: It details a running count and percentage of the bytes transferred. A red bar graph also updates you on the transfers.

GOOD BRAKES. All the browsers in our tests let you click on a stop command, which comes in handy when a download is taking forever (or if you're having trouble connecting to the server containing the data). To zip things up, the browsers also let you bypass the graphics and download only text.

Some browsers (or their service providers) do better than others in pointing users to sites that might be worth visiting. Or they'll direct you to some of the best search tools (Lycos, WebCrawler, among them) on the Web. Internet in a Box takes you to the Global Network Navigator home page, which contains links to more than 600 Internet services including the NCSA Mosaic What's New list, and the Whole Internet Catalog, a directory by subject.

The Prodigy home page provides links to the popular Yahoo List Web catalog and includes What's New and Hot Spots lists. On one recent visit, I was led to NASA's Space Shuttle Endeavor site and to CyberMalls, where I could drop in on Green Mountain Coffee Roasters. Come to think of it, given the time it takes for some files to get from a far-off Web server to your computer, java might be just the thing to keep you browsing along. *Edward Baig*

Software for Browsing the Web

RAM PUBLISHER	EASE OF SETUP: Using specified providers	EASE OF SETUP: Using other providers	FEATURES	PERFORMANCE	COMMENTS
RNET IN A BOX MOSAIC) SPRY	★★★★	★★★★	★★★★½	★★★★	Easy to install with local provider. Browser comes with other Internet tools. Suggests Web sites you might want to visit.
RNET CHAMELEON MANAGE	★★★★½	★★★	★★★★	★★★★	Includes full suite of Net tools. Doesn't let you know how much of a page has been retrieved.
CRUISER COM	★★★★½	N/A	★★★★	★★	Cannot print and runs relatively slowly, especially with graphics. Software only works with Netcom service. Easy to set up, with a simple manual and handy guided tour for newcomers.
SCAPE NAVIGATOR SCAPE	N/A	N/A	★★★★½	★★★★	Can be downloaded off the Net. Fades in graphics until full image appears. Points to powerful Web search aids.
LINE	★★★★½	N/A	★★★½	★★	User cannot save pages to disk or easily print. Provides no status on downloads. Includes complete slate of Net tools.
DIGY†	★★★★½	N/A	★★★★	★★	Only built-in browser among major online services. Installation is a no-brainer, but users cannot search Web page for text. Relatively slow performance.

gy was tested at modem speed of 9,600 baud. All others were at 14,400. N/A= Not applicable. KEY: ★★★★★ Excellent ★★★★ Very good ★★★ Average ★★ Fair ★ Poor

DATA: NATIONAL SOFTWARE TESTING LABORATORIES; BUSINESS WEEK

WHEN YOUR EGGS ARE ALL IN ONE STOCK

Business owners, corporate executives, and investors who have amassed large amounts of stock in a single company can use an equity swap to diversify their risk without selling their shares and paying capital-gains tax on the proceeds. Such swaps had previously been restricted to institutional investors looking to protect large holdings. Increasingly, however, institutions such as Bankers Trust New York and Citibank are doing swaps with high-income individuals.

Say you're the owner of a publicly traded company XYZ. Because you started the company years ago, your tax basis is low, but the stock is now worth $2 million and is a significant part of your net worth. XYZ is growing fast and has been reinvesting its earnings for expansion, so it doesn't pay you dividends.

ANNUAL FEES. You don't want to give up voting rights or control over your shares, but you would like to increase your current income and liquidity. Mostly, you want to diversify your holding without having to sell and realize a huge capital gain. An equity swap meets these requirements. You pay a fee to a commercial or investment bank and enter a contract agreeing to pay the bank the total return on XYZ shares in exchange for the return on a diversified basket of issues such as ones listed on the Standard & Poor's 500-stock index.

During the contract's term, typically three to seven years, you receive dividends from the S&P holding. When you terminate the contract, if XYZ is still worth $2 million, you and the bank are even. If XYZ went up 10%, you turn over the appreciation to the bank. Conversely, if XYZ dropped 10%, the bank is obligated to make up the difference to you.

The result is that you get current income from the S&P, and you've protected the value of your original stock for the contract period. For its trouble, the bank collects an annual fee of 1% to 3%, which comes out of the S&P return. It can also sell your stock short during the holding period. By betting against your stock, the bank makes money if XYZ falls. It will then use that profit to restore the value of your stock when the contract ends. If the price of XYZ rises, the bank's losses from the short sale are covered by the appreciation of your stock.

SMART MONEY

Because you sacrifice the upside potential of your holdings, you don't want to swap if you're confident that your stock is going to climb, says Steve Weinstein, a partner at Arthur Andersen in Chicago. "You would do it if you were worried about the risk of holding a single stock," he says, or if your current income is more important to you than stock appreciation.

HIGH VISIBILITY. Swaps are fairly complicated, and fees can vary depending on how well-capitalized your company is. The more volatile and less liquid your stock, the higher the fee, says Lisa Osofs director of personal finan planning at M. R. Weiser, accounting firm in New Y And you need at least million in total assets and million in stock to enter swap market.

Some caveats apply. Securities & Exchange C mission ru last fall that siders—company officers, rectors, or shareholders o ing over 10%—must rep swaps to the regulator. T report can look to outsid as if insiders are unloadin bundle, which could be in preted as a bearish sign, s Kevin Roach, a part at Price Waterhou Thus, insiders mi want to think about iting how much st they swap.

TAX RISK. The strat is even better suited noninsiders, who d have to report the tr action. Typically would be someone sold a company in change for the acqui stock, a retired ex tive who's holding a of a single compa shares, or someone has inherited a chun stock but who is no volved in the compa operation.

There is also a po tial tax risk down line. Some tax pro sionals believe that Internal Revenue vice will make sw taxable. Other exp say that isn't li "There has been a l jawboning about it," Robert Gordon, p dent of Twenty-first curities Corp., which cializes in hedged strategies. He argues similar hedge strate aren't considered sales fo purposes, so there's no son swaps should be. In meantime, if you have a l eggs and they're all in basket, an equity swap is way to make sure they crack. *Pam E*

How an Equity Swap Works

A strategy for those who own large blocks of stock in a single company

Investor and bank swap back; bank makes up for any loss in investor's stock value using the profits from the short sale. Conversely, bank keeps any appreciation in investor's stock to make up for a loss on the short sale.

DATA M R WEISER

OTEL RATES THAT MAKE OR SWEET SLEEP

en if you don't rk for a big compa- with its own ıvel depart- ıt or you haven't ıed on with a dis- nt travel ser- , there is an ' way to nab e low rates otel rooms. onsolidators, ;h sprang up ıe early 1990s n hotels were inely operat- at 60% capac- book blocks of ıs at huge dis- ts and pass on the ıgs to customers. Res- tions services, which volume discounts, similar benefits: By ıg an 800 number, an t will find a hotel in your price range s near where you want ay, often at a savings of to 60% off the hotel's lard "rack" rates. "The part is, you don't have ıy to join," says Chris- er McGinnis, author of *Tips Even the Best Busi- Travelers May Not v* (Irwin, $10). especially ap- ıg to individual business lers who don't have a rate travel manager go- bat for them."

TRAVEL

EPARED. Increasingly, isn't the only reason to der these services. Of- consolidators will still rooms available—though lways at a discount— hotels are otherwise ıut because of a big con- on or local festivities. Reservations Network , one of the biggest, has ed buying up blocks of in cities during such l events as this April's Fest in New Orleans. Now that the hotel business is picking up, sell-outs will be an increasing problem, predicts HRN President Robert Diener. "Business travelers who don't plan in advance may be in for a shock."

Most discounters deal with large hotels in downtown business centers, offering a range of prices, from economy to luxury. But keep in mind, cautions McGinnis, that hotels wouldn't sign up with these programs if they didn't need the business. For that reason, he says, "a lot of the hotels are a bit older and may be ready for renovation."

But most consolidators evaluate the hotels and their surroundings and make sure that they meet certain standards, so you shouldn't get stuck in a dump in a dangerous neighborhood. Express Reservations specializes in hand-picking hotels in Los Angeles and New York and in giving expert travel advice. Many other large cities have their own reservation services that can provide a wealth of information along with cheap rooms. Call the local convention-and-visitors bureau to find out if there's one where you're headed.

In contrast with local services, Room Exchange has 23,000 hotels worldwide on its roster. "The criterion is that a hotel has to have a minimum of 100 rooms," says Mike Beer, the company's managing director. "We don't represent or recommend hotels. We guarantee the lowest rate."

FINE PRINT. Be aware that the programs vary. Some services require payment by credit card at the time you book. Quikbook lets you pay when you arrive at the hotel. RMC Travel Center is one of the few to include in its rates local tax, which can exceed 15% in some cities.

Make sure to check a service's cancellation policy before you give your credit-card number. At Room Exchange, rooms are fully refundable only up to 48 hours before the arrival date in the U.S. and up to seven days before arrival abroad. Also, members of frequent traveler programs should ask if they still qualify for mileage points at participating hotels. HRN recently started granting 500 miles toward United Airlines' flier program when you reserve five nights at a time. It plans to negotiate similar deals with other airlines, Diener says.

To be sure, there are many other ways to get reduced hotel rates. Amoco Motor Club comes with an automatic membership to Quest International, which provides rooms for 50% off. And those Entertainment Publications coupon books sold by local nonprofit groups for $30 to $50 often have great hotel deals. Even calling a chain and pushing for rate breaks over the phone can prove fruitful. However, if you don't like to haggle or are unfamiliar with the city you're visiting, booking your room through a consolidator or reservation service may be the way to travel. *Amey Stone*

Where To Find A Hotel Deal

EXPRESS RESERVATIONS
800 356-1123 Specializes in picking hotels in New York and Los Angeles and providing expert travel advice.

HOTEL RESERVATIONS NETWORK 800 96-HOTEL
Handles rooms in 20 U.S. cities, plus London and Paris. Grants frequent-flier credits when booking five nights at a time.

QUIKBOOK 800 789-9887
Serves business and leisure travelers. Offers discounts in 22 cities, from Maui to Montreal.

RMC TRAVEL CENTER
800 782-2674 Represents more than 700 U.S. hotels, from deluxe to economy.

ROOM EXCHANGE
800 846-7000 Deals with 23,000 hotels in the U.S., Europe, Caribbean, and Asia.

WORTH NOTING

■ **ANNUITY NEWS.** If you're confused about the pros and cons of buying an annuity, Scudder, Stevens & Clark can help with a free booklet, *Variable Annuities—What to Know Before You Invest.* It defines these products and lays out in a clear and simple format the tax benefits and costs. For example, did you know you can switch from your current variable annuity if you find a better one by filing a 1035 exchange form? Call 800 225-2470, ext. 8347.

THE PLAYERS

CHAMPIONSHIP

Since its inception in 1974, THE PLAYERS Championship has generated a collection of champions and championship moments to rival any tournament in the world.

From 1977, the eyes of the sports world have focused each March on Ponte Vedra Beach, FL. Since 1982, that focus has been the Stadium Course at the TPC at Sawgrass. Each year THE PLAYERS Championship assembles the strongest field in golf at a venue constructed expressly for the event.

Tim Finchem, who succeeded Deane Beman as Commissioner on June 1, 1994, this year presides over his first PLAYERS Championship. The idea for THE PLAYERS Championship and the course that is its home belonged to Beman, at the time a player on TOUR and a Player Director of the TOUR's Tournament Policy Board. Beman envisioned a course, owned and operated by the TOUR and its members, where fans would enjoy full access and unobstructed views at the tournament.

"I felt the TOUR needed a permanent site and some roots somewhere," Beman said. "Secondly, I felt the way to build THE PLAYERS Championship into the TOUR's most important tournament was to own and control our own course and build a facility that was better than what anyone else had.

"I also felt that the TOUR had benefited so much from everybody else's innovations, and here was a chance for the TOUR to be innovative."

Designed by renowned golf course architect Pete Dye, the 415-acre, par-72 facility was unveiled in 1982, and it had an immediate impact on the game. Among the more startling design features were the spectator mounds, some as high as 30 feet, providing thousands of spectators a "front-row" seat to the action, and the natural waste areas on most holes, which reduced the area requiring maintenance to 45 acres.

Recognized throughout the world, the par-3 17th hole, with its island green, is the signature hole of the Dye/Beman creation. Not a long hole at 132 yards from the back tee, it has drawn praise and ire from professional and amateur alike. (By the way, in answer to the most often asked question about the hole, about 38,000 balls find the water every year.)

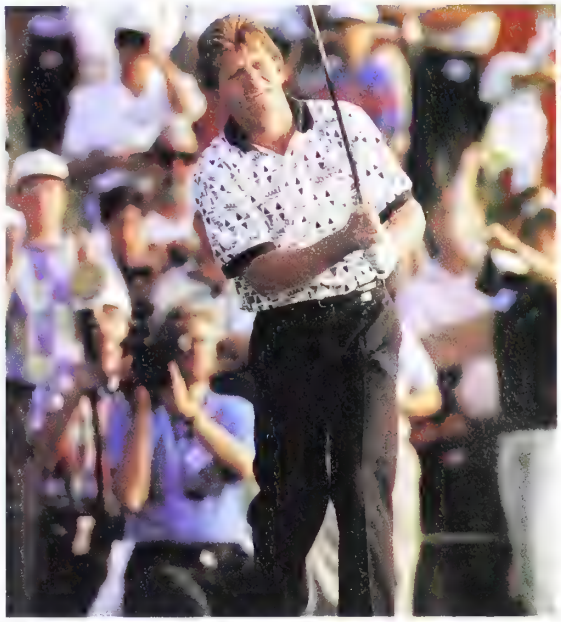
The golfing world looked on in awe in 1982, when THE PLAYERS Championship had its debut at its permanent home. The first championship came off just as the architects had foreseen – with the possible exception of the finish, which saw champion Jerry Pate take both then-Commissioner Beman and architect Dye for a swim in the pond adjoining the 18th green during the award ceremony.

The design of the course, the consistently outstanding fields and the prestige of winning THE PLAYERS Championship (and the 10-year exemption that comes with it) have combined to produce many other memorable moments.

Youth was served in the : Championships as 1983 1984 produced back-to-k 24-year-old winners. l Sutton captured the 3 event despite starting final round four strokes k. In 1984, Fred Couples ıed the second win of his er, defeating Lee Trevino one stroke. Along the , Couples established the dium Course record with cond-round 64, a mark ich stood until 1992, en he bettered it with ird-round 63.

At the other end of the trum, Calvin Peete, who n't even take up golf until was 23, won the 1985 npionship at age 42. Peete, known ne of the game's great ball-strikers, 14-under-par 274 to break the -tournament record by three strokes. n 1986, John Mahaffey made up four ces over the last eight holes, then a gutsy par putt on 18 to take the . The following year, birdies by ly Lyle and Jeff Sluman on the 72nd forced the only playoff since the nament moved to the Stadium se. Lyle won the championship a par on the third extra hole. ı 1988, hometown favorite Mark umber shot an opening-round 65 went on to establish a tournament d, posting a 15-under-par 273. 1989 winner was Tom Kite, who off a charging Chip Beck on the day.

ıe 1990 champion was Jodie Mudd. The Louisville, KY, native stepped e 17th tee holding a tenuous one-e lead over Mark Calcavecchia. He birdied the treacherous par-3 to e the victory. The next year it was Elkington, who hit a 3-iron shot 208 yards to within 15 feet at the ament's final hole, then drained irdie putt to capture the title. ıvis Love III scored a decisive four- victory in 1992, closing with a nder-par 67 on Sunday.



Nick Price, 1993 PLAYERS Champion and PGA TOUR Player of the Year.

Nick Price had a a spectacular year in 1993 which started at THE PLAYERS Championship. His five-stroke victory over Bernhard Langer at the TPC at Sawgrass earned him $450,000 and signaled the beginning of a truly remarkable campaign.

Before the year was over, Price had won three more tournaments – the Canon Greater Hartford Open, the Sprint Western Open and the Federal Express St. Jude Classic – and earned a then-record $1,478,557, becoming the first player in TOUR history to earn over $1 million in consecutive years. For his efforts, Price was named by his peers as the PGA TOUR Player of the Year.

A record-breaking performance by Greg Norman highlighted the 1994 event. During the week, numbers grabbed the headlines – and it was Norman who produced them.

He started the tournament with a record-tying 63 on Thursday that included nine birdies and no bogeys. He finished the week with three 67s for a tournament-record 24-under-par 264.

If there is perfection in golf, Norman came close. During the week, he birdied 25 of the 72 holes. More amazing, he had only one bogey – and that was on the 13th hole Sunday afternoon.

It was on Sunday that Norman accented his dominance. With a five-stroke lead over Fuzzy Zoeller, he quickly told Zoeller not to get too enthusiastic about the possibility of catching him. Norman birdied the two opening holes and was seven shots ahead. By the end, working his own magic, Zoeller could only get as close as four strokes.

Another chapter is waiting to be written this year as the greatest golfers in the world once again assemble at the TPC at Sawgrass.

Not all the great moments at THE PLAYERS Championship take place on the course. Since 1977, Jacksonville-area charities have received more than $6.3 million, with $485,000 given last year alone. Among the beneficiaries were the Nancy Reagan TPC Village for adolescent drug and alcohol abuse, THE PLAYERS Championship Scholarship Fund and Camp Tracey.

While TOUR players capture the headlines, the real winner on the PGA TOUR is charity. Since 1938, more than $250 million has been given to worthy causes, including a record $24.7 million in 1994.

THE PLAYERS Championship Television Schedule

Thursday, March 23
First Round of Competition
USA Network Broadcast 4-6 p.m.
USA Network Broadcast
Replay 9-11 p.m.

Friday, March 24
Second Round of Competition
USA Network Broadcast 4-6 p.m.
USA Network Broadcast
Replay 9-11 p.m.

Saturday, March 25
Third Round of Competition
NBC Broadcast 2-6 p.m.

Sunday, March 26
Final Round of Competition
NBC Broadcast 2:30-6 p.m.

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Karl M. von der Heyden, formerly RJR Nabisco CFO and Metallgesellschaft CEO

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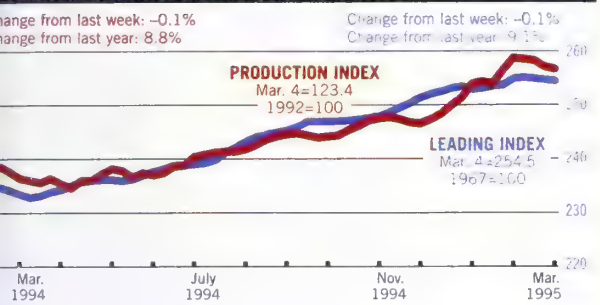
usiness Week Index

ODUCTION AND LEADING INDEXES



dexes are 4-week moving averages

production index was little changed in the week ended Mar. 4, but before lation of the four-week moving average, it rose to 123.6, from 123.2. ndex has been revised to reflect new seasonal factors for 1994 and . The index for all of February stood at 123.4, from 123.5 in January. **leading index,** before calculation of the moving average, rose to 254.8, 254.4. The index for February increased to 254.6, from 253.9 in January.

duction index copyright 1994 by McGraw-Hill Inc BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/11) thous. of net tons	2,015	1,997#	6.7
AUTOS (3/11) units	145,025	146,825r#	–1.8
TRUCKS (3/11) units	120,822	118,478r#	0.1
ELECTRIC POWER (3/11) millions of kilowatt-hrs.	58,329	60,720#	2.5
CRUDE-OIL REFINING (3/11) thous. of bbl./day	13,686	13,647#	5.8
COAL (3/4) thous. of net tons	21,198#	22,991r	–0.3
PAPERBOARD (3/4) thous. of tons	941.7#	913.2r	8.4
PAPER (3/4) thous. of tons	859.0#	851.0r	3.1
LUMBER (3/4) millions of ft.	449.4#	432.3	–8.7
RAIL FREIGHT (3/4) billions of ton-miles	24.2#	24.7	6.6

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (3/10) S&P 500	484.73	485.48	4.0
ORATE BOND YIELD, Aaa (3/10)	8.22%	8.15%	10.5
STRIAL MATERIALS PRICES (3/10)	113.5	113.0r	NA*
NESS FAILURES (3/3)	312	301	–10.6
ESTATE LOANS (3/1) billions	$468.3	$466.9r	11.3
Y SUPPLY, M2 (2/27) billions	$3,587.5	$3,585.6r	1.6
AL CLAIMS, UNEMPLOYMENT (2/25) thous.	332	344	5.7

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/15) $/troy oz.	386.150	380.000	0.2
STEEL SCRAP (3/14) #1 heavy, $/ton	137.50	141.50	–1.4
COPPER (3/11) ¢/lb.	140.8	136.5	52.2
ALUMINUM (3/11) ¢/lb.	90.0	87.5	46.3
COTTON (3/11) strict low middling 1-1/16 in., ¢/lb.	107.58	101.39	47.3
OIL (3/14) $/bbl.	17.85	18.62	18.6

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (3/14)	5.93%	5.93%	3.19%
ERCIAL PAPER (3/14) 3-month	6.14	6.18	3.84
FICATES OF DEPOSIT (3/15) 3-month	6.15	6.21	3.75
MORTGAGE (3/10) 30-year	8.86	8.72	7.74
TABLE MORTGAGE (3/10) one-year	6.53	6.51	4.61
(3/15)	9.00	9.00	6.00

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/15)	89.57	90.48	106.15
GERMAN MARK (3/15)	1.39	1.38	1.69
BRITISH POUND (3/15)	1.60	1.63	1.49
FRENCH FRANC (3/15)	4.94	4.94	5.77
ITALIAN LIRA (3/15)	1680.3	1650.5	1674.8
CANADIAN DOLLAR (3/15)	1.42	1.41	1.37
MEXICAN PESO (3/15)[3]	6.725	6.715	3.293

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

lata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

AL BUDGET

y, Mar. 21 ▶ The U. S. Treasury is d to report a budget deficit of about lion for February, according to the forecast of economists surveyed by ernational, a division of McGraw-Hill February, 1994, the red ink totaled illion. While Congress and the louse battle over balancing future , progress is being made in holding e deficit for fiscal 1995, which n October. With the expected Februber, the deficit for the first five is running some 16% below the riod of fiscal 1994, when the nded the entire year at $203.6 bilve-year low. Because of the 1993 Deficit Reduction Act and a healthier economy, federal tax receipts are growing at a faster pace than government outlays.

INTERNATIONAL TRADE

Wednesday, Mar. 22, 8:30 a.m. ▶ The trade deficit for all goods and services probably widened in January, to about $8.5 billion, from an unexpectedly low $7.34 billion in December. Exports, which rose 3.2% in December, likely slipped back in January, forecast the MMS economists. Meanwhile, imports probably rose slightly in January, after falling 1% in December. Despite the expected widening for January, the trade deficit is forecast to improve during the course of 1995.

DURABLE GOODS ORDERS

Friday, Mar. 24, 8:30 a.m. ▶ The MMS survey forecasts that new orders for durable goods likely fell by 0.5% in February. That would follow three consecutive increases, including a 1.1% gain in January. The backlog of unfilled orders probably continued to rise last month. The backlog has risen for five months in a row.

EXISTING HOME SALES

Friday, Mar. 24, 8:45 a.m. ▶ Sales of existing homes probably fell to an annual rate of 3.4 million in February, following a 4.5% slide in January, to a 3.59 million pace. That is suggested by the decline in mortgage applications to buy a home.

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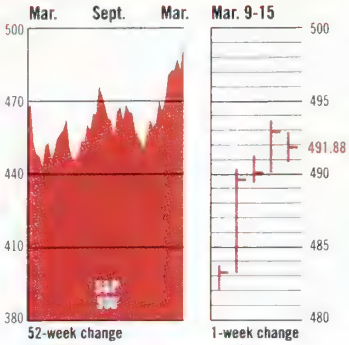
nvestment Figures of the Week

MENTARY

afraid of a falling dollar? nly not the U.S. stock or bond ts. Both made big strides in ast week by focusing on do- c concerns. Encouraged by of a slowing economy, the erm Treasury bond rallied. ll in rates spurred the equity t to action. The Dow jumped ints, to a record 4035.6, on 0, and finished the week a gher for a 1.5% gain. South border, the beleaguered Mex- narket bounced back with a gain for the week.

STOCKS



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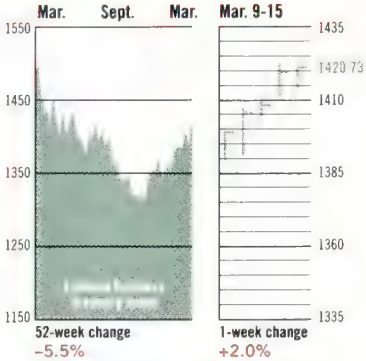
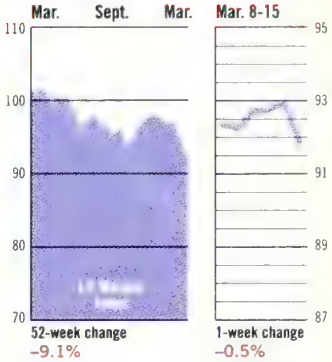


THE DOLLAR



ARKET ANALYSIS

STOCKS	Latest	% change Week	52-week
ONES INDUSTRIALS	4038.4	1.5	4.9
ZE COMPANIES (S&P MidCap Index)	180.6	1.6	-1.3
COMPANIES (Russell 2000)	257.4	1.0	-4.4
OMPANIES (Russell 3000)	280.8	1.7	3.0

IGN STOCKS	Latest	% change (local currency) Week	52-week
N (FINANCIAL TIMES 100)	3047.0	1.8	-6.0
(NIKKEI INDEX)	16,666.8	0.3	-19.4
TO (TSE COMPOSITE)	4218.8	2.0	-6.8

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.89%	5.92%	3.60%
30-YEAR TREASURY BOND YIELD	7.36%	7.54%	6.81%
S&P 500 DIVIDEND YIELD	2.68%	2.74%	2.74%
S&P 500 PRICE/EARNINGS RATIO	16.3	16.1	21.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	463.9	463.1	Positive
Stocks above 200-day moving average	53.0%	51.0%	Neutral
Speculative sentiment: Put/call ratio	0.72	0.77 r	Positive
Insider sentiment: Vickers sell/buy ratio	0.83	0.80	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

WEEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
D MINING	13.0	-10.0	SANTA FE PACIFIC GOLD	22.8	NA	12 1/8
TRUMENTATION	12.2	29.5	HEWLETT-PACKARD	13.8	32.6	119 7/8
EXPLORATION AND PRODUCTION	11.3	-13.3	MAXUS ENERGY	53.6	16.2	5 3/8
IPUTER SOFTWARE	9.4	20.0	MICROSOFT	15.7	75.5	71 3/4
ICAL PRODUCTS AND SUPPLIES	8.8	34.3	BOSTON SCIENTIFIC	28.4	49.6	23 3/4

WEEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
CIALTY RETAILERS	-8.6	-8.8	TOY 'R' US	-21.0	-33.6	24
ALS	-6.9	-5.4	ASARCO	-11.3	-8.0	24 1/2
MINUM	-5.4	1.4	ALCOA	-7.1	1.0	37 3/8
ARTMENT STORES	-5.4	-20.7	NORDSTROM	-14.8	-6.8	37 1/2
CIALTY APPAREL RETAILERS	-4.7	-25.2	TJX	-8.5	-55.5	12 1/8

TUAL FUNDS

MORNINGSTAR INC

RS

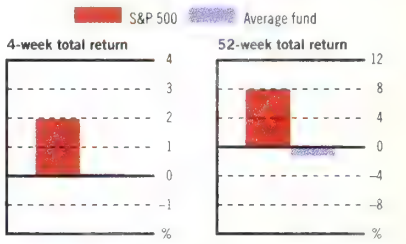
ek total return	%
GLOBAL	13.5
L MIDAS GOLD	10.8
INTERNATIONAL	10.7

k total return	%
ITY SELECT HEALTH CARE	32.8
MAN COMMUNICATIONS & INFORM. A	32.0
TT SMALLER COMPANIES	29.8

LAGGARDS

Four-week total return	%
MORGAN STANLEY LATIN AMERICAN B	-26.4
WRIGHT EQUIFUND-MEXICO NATL. FID. EQTY.	-25.9
TCW/DW LATIN AMERICAN GROWTH	-21.4

52-week total return	%
HERCULES LATIN AMERICAN VALUE	-50.8
FIDELITY LATIN AMERICA	-50.3
TCW/DW LATIN AMERICAN GROWTH	-49.5



ATIVE PORTFOLIOS

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mounts represent the value of $10,000 one year ago portfolio

ages indicate total returns

U.S. stocks	Money market fund	Foreign stocks	Treasury bonds	Gold
$10,861	$10,690	$10,618	$10,136	$9,952
+2.23%	+0.23%	-2.13%	+3.68%	+0.71%

this page are as of market close Wednesday, Mar. 15, 1995, unless otherwise indicat- y groups include S&P 500 companies only; performance and share prices are as of mar- ket close Mar. 14. Mutual fund returns are as of Mar.10. Relative portfolios are valued as of Mar. 14. A more detailed explanation of this page is available on request. r=revised NA=Not available

HOW TO CUT A COOL $1 TRILLION

Everybody has a list. The libertarian Cato Institute. The centrist Democratic Progressive Policy Institute. The conservative Heritage Foundation. The bipartisan Entitlement Commission. And soon John R. Kasich (R-Ohio), House Budget Committee chairman, will have a list. At a time when people are being driven stark mad by their Apr. 17 tax preparations, let's muse about cutting government spending.

Here is BUSINESS WEEK's list of things to cut—and not to cut—to balance the budget. The goal is a high-growth, low-inflation economy supported by a simplified tax code. That means not messing around with the tax code in the name of child or corporate welfare. Yes, we would love a flat tax.

But until we get there, get the ax. The goal is to cut $1 trillion over five years, give or take a few billion. First, our bias. We freely admit we think it's O. K. to subsidize U. S. exports as long as foreigners subsidize theirs. But not a minute longer. We also believe that government spending—in moderation—on basic research and new technology can pay off big. Remember who built the Internet.

So with that, here's the easy part—change the statistics. Even before Alan Greenspan suggested it, BUSINESS WEEK said the consumer price index overstated inflation. Rejiggering the CPI to cut inflation by one percentage point would save $150 billion in cost-of-living adjustments over five years. This is a no-brainer. Shifting people in Medicare and Medicaid from fee-for-service to HMOs would save $400 billion over five years. At $550 billion, we're halfway there.

The rest are finer slices of the salami. The government save about $40 billion over five years by fee-basing the F eral Aviation Administration; $40 billion in reducing agricul ral subsidies; $10 billion in selling the Rural Electrification ministration and federal power administrations; $40 billion privatizing veterans' medical care and reducing transfer p ments to federal retirees; $50 billion by cutting defe spending on big-ticket items; $10 billion in cutting welfare; billion in selling the Tennessee Valley Authority and end the Small Business Administration; $1.5 billion by dump strategic petroleum and helium reserves; $1.5 billion by e ing below-market timber, grazing, and mineral sales; $30 lion by shrinking the bureaucracy; $50 billion by selling fe al property; $10 billion by killing the Farmers Ho Administration; $20 billion by cutting retraining programs; billion in Housing & Urban Development spending cuts; billion from selling part of the government's loan portfolio; billion by reducing mass-transit subsidies.

That comes to a tidy sum of $913 billion. Savings on lo government debt service plus higher government reven thanks to greater economic growth, easily push BUSIN WEEK's list over the top. Oh yes, one other thing. It doe make much sense to try to cut the budget deficit and re taxes at the same time. The average family will gain m more from the lower interest rates that come from deficit duction than it will from a $10-a-week giveback from federal government.

TORT REFORM, THE SENSIBLE WAY

"I'm the victim!" proclaims the *New Yorker* cartoon character, arm in the air, bursting into a room. In an era when fewer and fewer people are willing to shoulder responsibility for their actions, the U. S. legal system has become an arena for assigning blame. Do you have a serious disease? It's the doctor's fault for not curing you, so sue. Cut yourself using a saw? It's the company's fault for not designing it to fit your hand, so sue. Somebody else, with deep pockets, is always to blame. Welcome to the litigious society: America, circa 1995.

The GOP Congress has remedies to offer, and, with one exception, is off to a good start. None too soon. The cult of victimization combined with jury trials, contingency fees, and punitive damages in civil suits is hurting the economy. Awards are wildly out of proportion to the harm done, prompting companies to spend huge sums to protect themselves—money that could go toward investment and growth. Law firms gross more than $100 billion a year, feeding an army of nearly 800,000 lawyers, up 300% over the past 25 years.

Enough. We would prefer judges to be stricter in throwing out frivolous cases. We would like the citizenry to be more responsible. We would prefer the states to do the reform But in lieu of that, federal action is necessary. Hence, the gressional proposals to cap some jury verdicts, deter cour tions, and get losing litigants to pay all legal fees.

Capping punitive damages at three times compens damages would go a long way toward curbing outlar awards. Limiting joint liability is a good idea, too. deep-pocketed companies are liable for injuries even if are only tangentially involved in manufacturing or distr ing the products alleged to be defective. That's just craz is the granting of huge medical malpractice awards by j which would also be capped in the new legislation.

What doesn't work in Congress' package is the Er Rule, which forces losers to pay winners' legal fees. It dis inates against the economically weak and is a dang lurch to the extremist right. Far better for judges to ex more discipline and settle cases quickly.

The point of tort reform is not to prevent individuals using the legal system to find legitimate redress. The is common sense and a return to moderation. What the U. now isn't working. It's time to try something else.

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HOW THE INTERNET WILL CHANGE THE COMPUTER INDUSTRY

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BusinessWeek

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FORD

Will Alex Trotman's global strategy work?

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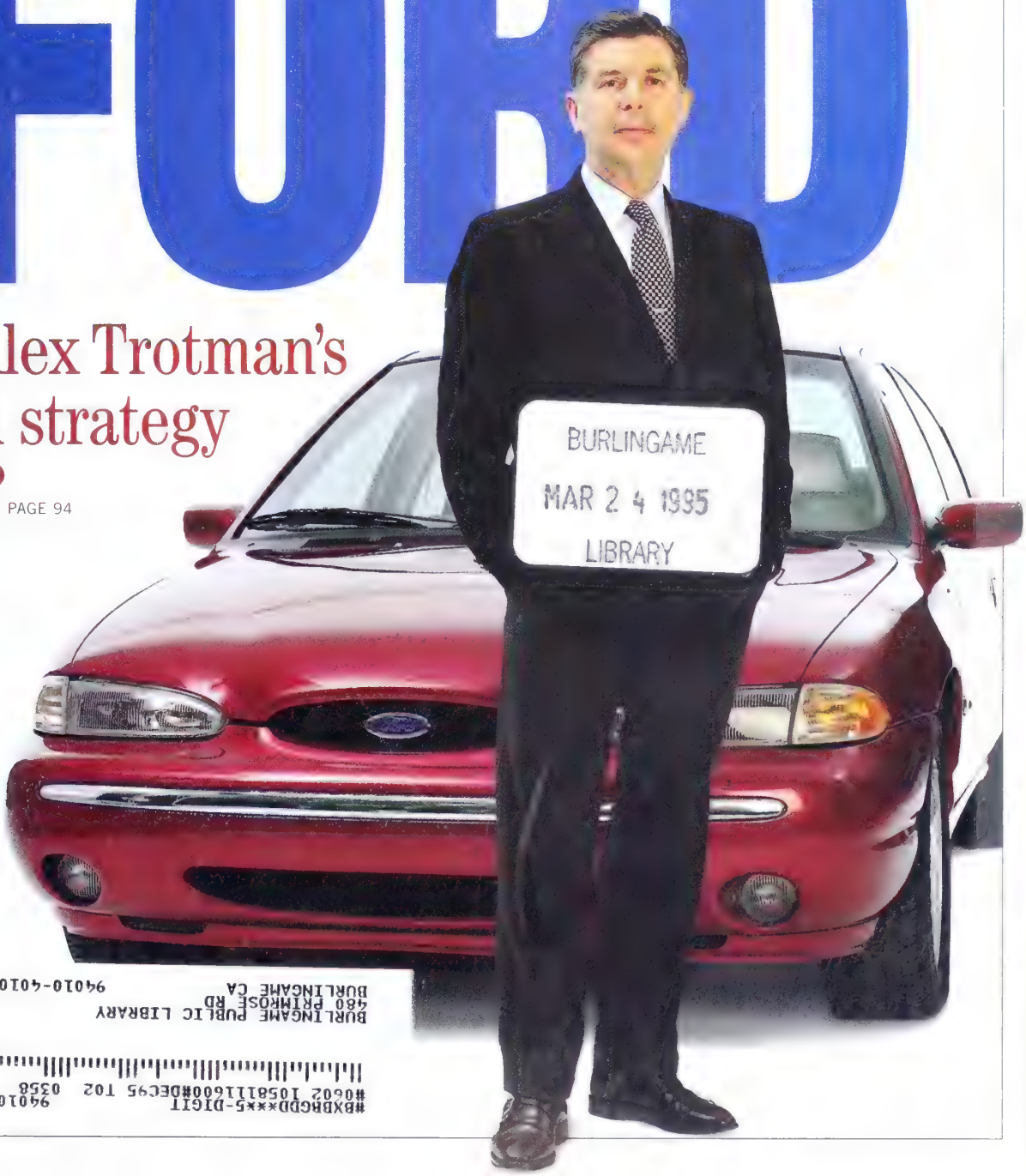

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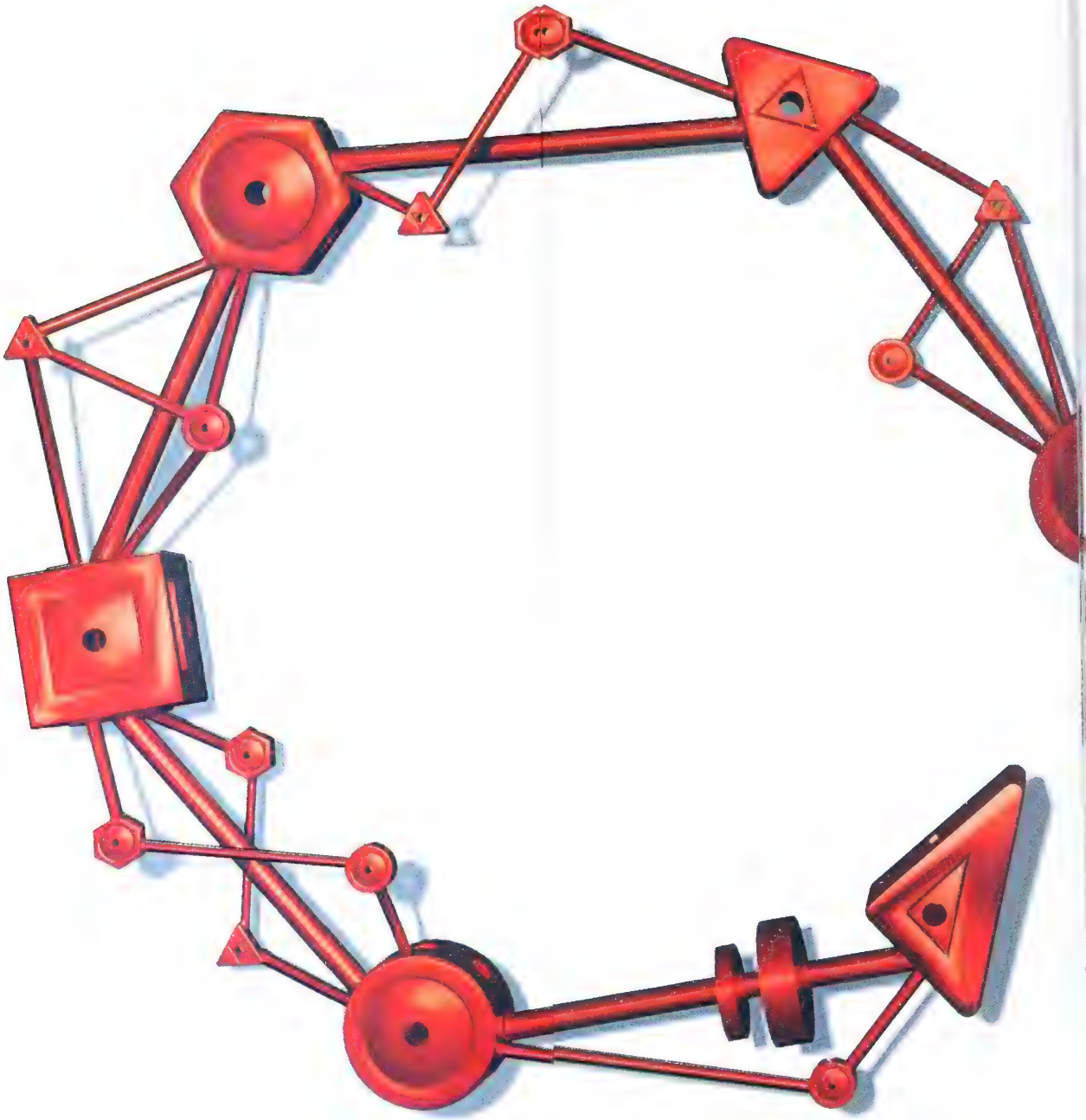
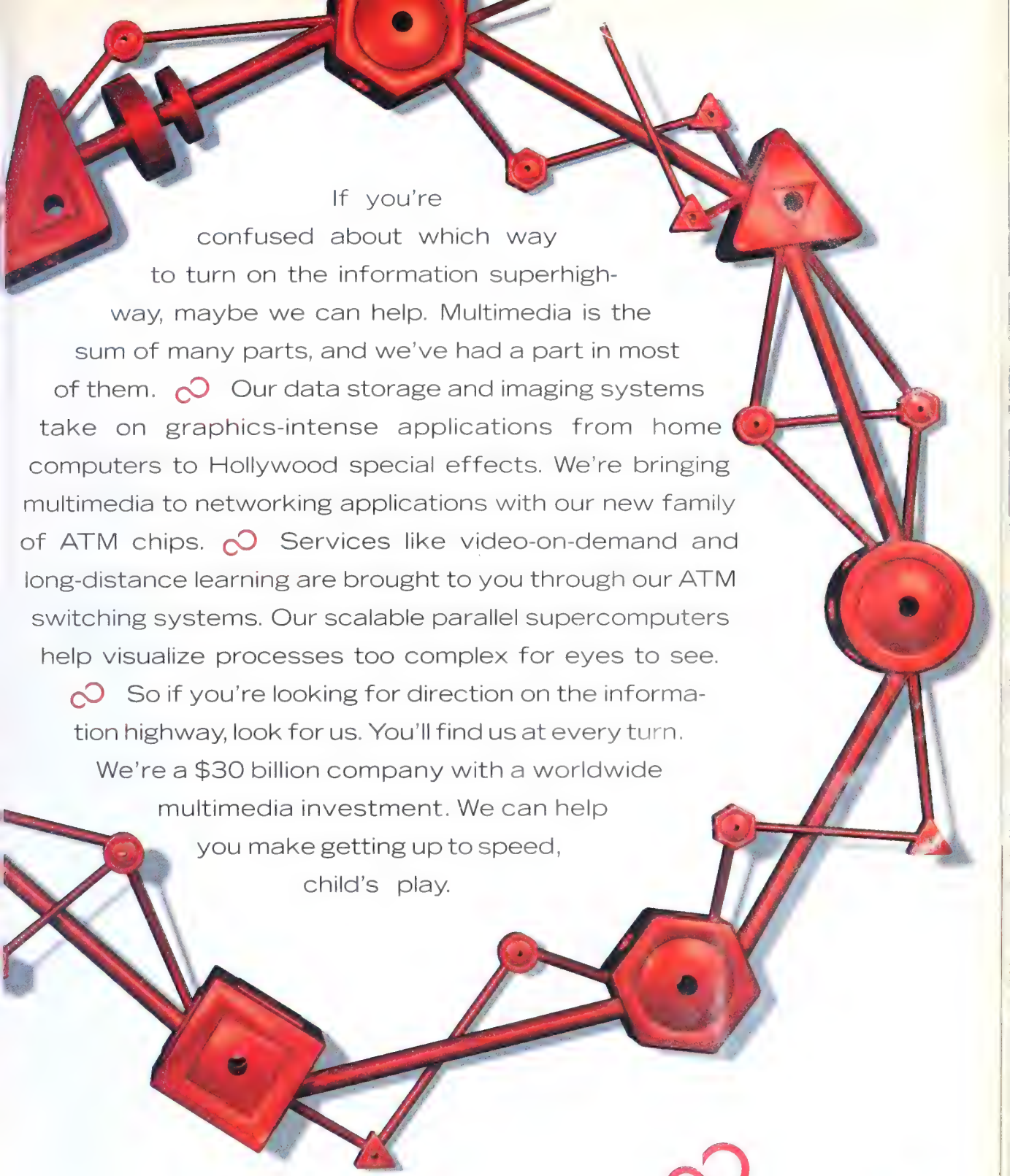
HOW TO MAKE
MULTIMEDIA CONNECTIONS
CHILD'S PLAY.





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FORD 2000
The auto maker is tearing apart its regional structure and adopting a truly global strategy as it prepares for the next century
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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "Generation after generation, we have enslaved these people."

—Representative William Goodling (R-Pa.), backing the GOP bill to overhaul a welfare system accused of fostering dependency

STREET NEWS

CS FIRST BOSTON OILS ITS REVOLVING DOOR

CS FIRST BOSTON GETS A TOP-level shakeup as President Allen Wheat cuts costs and tightens his grip at the Swiss-owned investment bank, where profits last year dropped 52%. Wheat, a bottom-line-driven derivatives trader, was promoted in late 1993 and recently assumed effective command.

Ruedi Stalder, the Swiss chief financial officer installed by CS Holding Chief Executive Rainer Gut in 1991, will be replaced in several weeks, say sources close to the firm. Stalder, considered Gut's watchdog in the U.S., will shift to another job at CSFB or elsewhere in the Swiss parent's empire. CSFB had no comment.

Another new Wheat economy: moving nonrevenue-producing service providers off-payroll. So employee-benefits head Stephen Medici has formed his own company with his 10-member CSFB staff. First client: CS First Boston. Robert Raziano, chief of operations and systems, also has a new job: He gives up his managing director title for a two-year consulting contract overseeing CSFB's move to another Manhattan building. Wheat's radical cost-cutting regimen includes a recently announced 15% staff cut. *Leah Nathans Spiro*

WHEAT: *Tightening his grip*

CAR TALK

CHRYSLER: JUST A ROUGH PATCH?

O.K., CHRYSLER CORP. HAS A quality problem. Chairman Robert Eaton was already flogging his troops over quality control even before the April issue of *Consumer Reports* criticized Chrysler vehicles, knocking its stock down by 1¾, to less than 39. But this is probably a case where the market overreacted.

Even though the magazine says the reliability record of the Jeep Grand Cherokee, for example, "has been dismal," buyers are snapping up the Jeep and such stylish new products as the Cirrus sedan. Why? Let's go to the magazine. In the April issue, most Chrysler models score at or near the top of their class in performance and such things as roominess. "Chrysler comes out with probably the best functional cars going," says Robert Knoll, the magazine's director of auto testing. The magazine's beef is that the Grand Cherokee, Ram trucks, and Dodge Intrepid and other LH cars have to go in for repairs too often.

Such concerns are sure to sway some potential buyers, but history suggests that the effects are marginal. Sales of the company's minivans, which were removed from the *Consumer Reports* recommended list in 1991 (and since reinstated) because of transmission failures, never stumbled. Ditto the Ford Taurus, which dropped off the list in 1988. Meanwhile, Chrysler has fixed some problems, such as dim headlights on the Intrepid, and is redesigning doors to avoid occasional water leaks and wind noise. *David Woodruff*

DISSED: *Grand Cherokee*

THE LIST GROSS ENCOUNTERS

Commercial success and major Oscar nominations (Best Picture, Actor, Actress, Director) go together—but not always. At the Mar. 27 Academy Awards, the ticket-sales winner among studios with major nominees will be Paramount, home of 1994's No. 2 box office hit, *Forrest Gump*. Revenue champ *The Lion King*, from Disney, didn't bag any major nominations. (After all, it's a cartoon.) Still, Disney-owned Miramax scored big bucks and nominations with *Pulp Fiction*, starring John Travolta.

PULP FICTION: *Serious box office*

MOVIE REVENUE: TOP OSCAR NOMINEES

Best Picture, Best Actor, Best Actress, Best Director

STUDIO	FILM / NOMINATIONS	GROSS* MILLIONS
PARAMOUNT	*Forrest Gump* 3 *Nobody's Fool* 1	$334
MIRAMAX	*Bullets Over Broadway* 1 *Tom and Viv* 1 *Pulp Fiction* 3 *Red* 1	104
WARNER BROTHERS	*The Client* 1	92
COLUMBIA	*Little Women* 1 *The Shawshank Redemption* 2	70
GRAMERCY	*Four Weddings and a Funeral* 1	53
20TH CENTURY FOX	*Nell* 1	33
BUENA VISTA	*Quiz Show* 2	24
SAMUEL GOLDWYN	*The Madness of King George* 1	10
ORION	*Blue Sky* 1	3

*As of Mar. 17 DATA *HOLLYWOOD REPORTER* ACADEMY OF MOTION PICTURE ARTS & SCIENCES

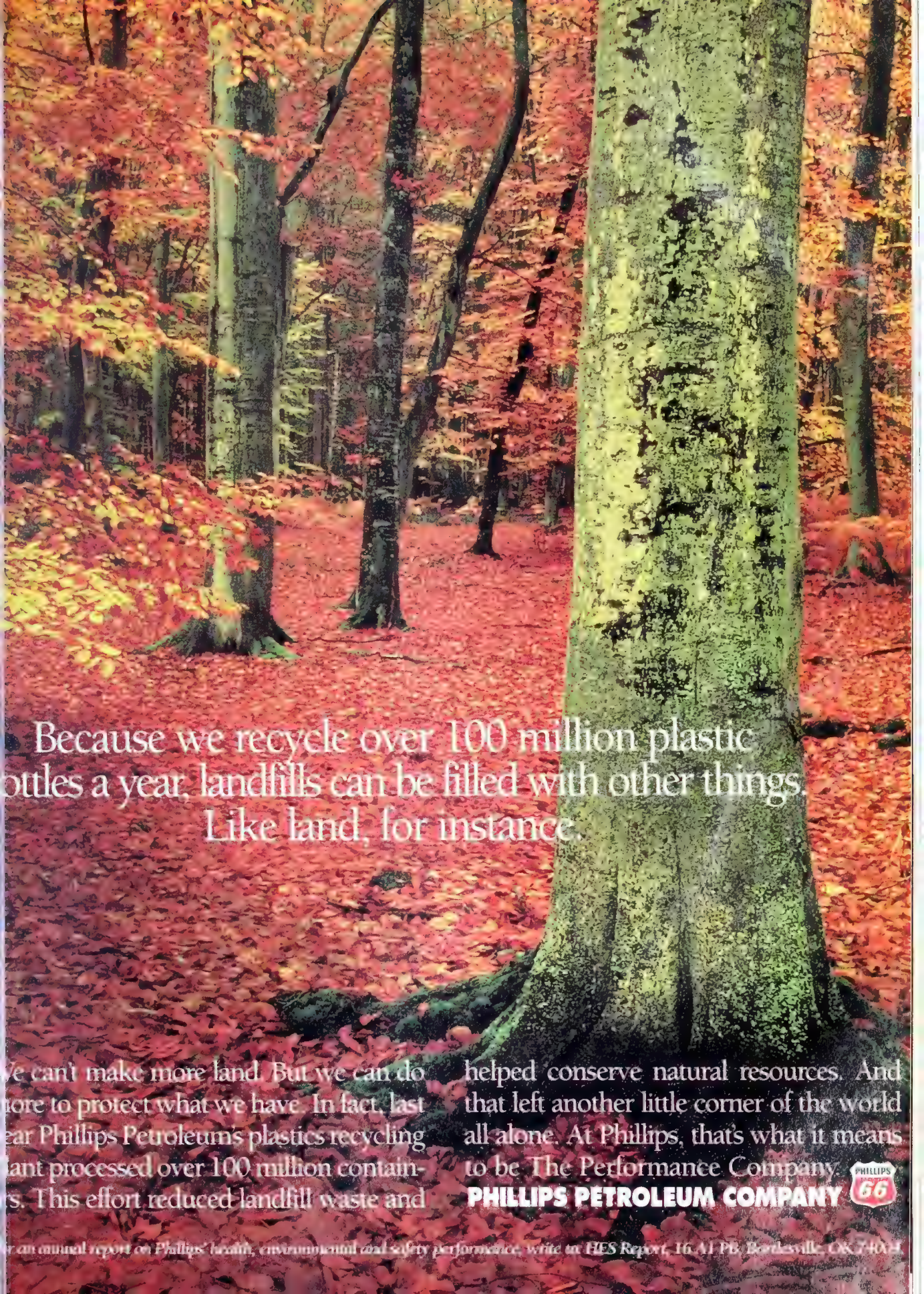
PAPER PLAYS

THIS STOCK DIDN'T QUITE MAKE THE CUT

GENERAL MOTORS' SPECIAL stock for its Electronic Data Systems unit has done so well that it has outgrown the Standard & Poor's MidCap index. But the stock, known as Class E, is not stepping up to the prestigious S&P 500-stock index. Here's why.

Basically, S&P doesn't think enough Class E shares will be available for public trading. That's because GM recently placed a huge wad of E shares—173 million—in its pension plan to help cover a chronic shortfall. This leaves 55% of the shares for the public, or 263 million. That may seem plenty. The index funds mirroring the S&P 500 would only have taken 32.5 million of those E shares. But S&P doesn't want almost half a 500 stock unavailable.

Class E seems to have shrugged off the slight from Standard & Poor's—which, like BUSINESS WEEK, is a unit of McGraw-Hill—with no lasting effect. Since getting the boot from the MidCap index Mar. 9, the stock has held quite steady, closing Mar. 22 at 40⅝. *Jeffrey M. Laderman*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Up Front

SHOW BIZ

STAY TUNED FOR *M.I.T. BLUE*?

SEXY SCIENTISTS emoting on network prime time? It may happen. Nobel prize winner Leon Lederman is seeking funding for a TV show to do for scientists what *L.A. Law* did for lawyers and *ER* did for surgeons. Tentative title: *The Dean*, because the show will revolve around a college dean as he explores nuclear fusion and battles hazardous-waste spills.

Lederman earned his 1988 Nobel in physics by studying subatomic particles called neutrinos, which have no detectable mass. Cynics might say a prime-time berth is even harder to find. Yet Lederman, 72, now a professor at the Illinois Institute of Technology, says CBS Chief Laurence Tisch encouraged him to develop the concept. No comment from CBS. Plus, Lederman has high-power help developing the proposal: Adrian Malone, executive producer of such science-TV hits as Carl Sagan's *Cosmos*. Although Lederman wants episodes to be scientifically accurate in every respect, he says, "I think we're going to have a problem with that, and I think we're going to lose." Quick study, that guy. *Peter Coy*

PRODUCT PEEK

CYBERLOUNGES FOR CYBERSCHMOOZERS

CHAT ROOMS, THOSE MAINSTAYS of online services, are getting a new look from Japan. These chat rooms are graphical 3-D versions of a place where members now communicate by typing text. In the new version, you move on-screen as a cartoon character called an "avatar," interacting with other kindred souls in electronic form. This baby step toward virtual reality, named WorldsAway, is slated to be available in July from CompuServe—licensed from Japan's Fujitsu Cultural Technologies.

WORLDSAWAY: *Faceless no more*

Here's how it works: First, you choose a body and a head for your avatar—part animal, part human, whatever. Mixing and matching is encouraged. Your typed comments appear in a dialogue bubble over your character's head, as in a comic strip. In Japan, where Fujitsu launched its first electronic community five years ago, people throw "head parties" for friends to try on your collection of heads.

There are other cyber-schemes in the works. Knowledge Adventure Worlds and Landmark Entertainment Group plan to launch their own 3-D Interactive World's Fair by yearend on the Internet. *Amy Cortese*

DRAWN & QUARTERED

THE PRINTED WORD

RANDOM HOUSE'S PROFILES IN COURAGE

DIVER GREG LOUGANIS' BEST-seller is the latest in Random House's string of successful autobiographies by athletes afflicted with the AIDS virus. The giant Newhouse-owned publisher is in its ninth printing with Olympic gold medalist Louganis' *Breaking the Surface*, which also just hit No. 1 on *The New York Times* best-seller list. Similarly, basketball legend Magic Johnson's 1992 memoirs (*My Life*) and tennis star Arthur Ashe's 1993 book (*Days of Grace*), published by Random House unit Knopf, were best-sellers.

LOUGANIS: *Best-seller*

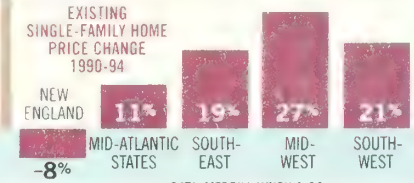
Random House executives say it's just coincidence that it has published all three, and they are reluctant to attribute the books' success to the AIDS factor. Others in the industry say the reasons are clear: The men are prominent, and their tragic stories are compelling.

AIDS-related publicity surrounding this trio has done some good. The Los Angeles Gay and Lesbian Community Services Center notes a 41% increase in anonymous HIV testing there since Louganis announced on Feb. 22 he had the virus. Such hikes also followed disclosures by Johnson and Ashe, who died just before his book came out. □

THE BIG PICTURE

PROPERTY VALUES: IT DEPENDS WHERE YOU LIVE

For many people, your home is more than your castle: It's also your nest egg. But counting on steadily rising home prices can be hazardous to your financial health. Even though prices are up 12% nationwide since 1990, the average masks plenty of regional variation. Even a modest recent uptick hasn't helped much in New England. Shown: regions with the biggest changes.



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FOOTNOTES Percentage of managers who evaluate employees: 72% Employees who evaluate supervisors: 14%

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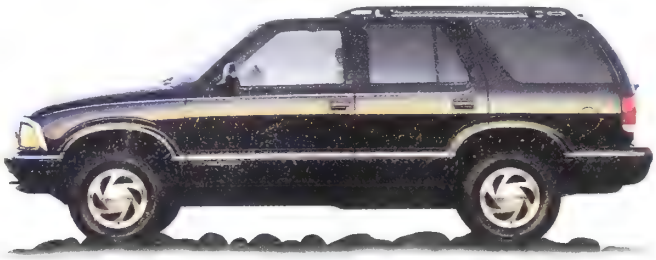

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Readers Report

SEIZING THE PULPIT ON 'AMERICA'S NEW POPULISM'

Historically, populism in America has often been associated with the knee-jerk reactions of a disenfranchised electorate ("America's new populism," Cover Story, Mar. 13). However, today's dissent stems from government's seeming inability to carry out the mandates of its electors rather than a bigoted attempt to return America to the past.

The anger that arises out of some Americans' circumstances is directed toward the government that they, themselves, have elected and less toward particular interests or minorities. Populism today crosses all ethnic, economic, and racial barriers.

Justin Viener
Brandon, Fla.

"America's new populism" is hardly new. It is an old-fashioned mix of racism, sexism, nativism, moralism, anti-Semitism, homophobia, xenophobia, and fascism.

Charles E. Everett
Bridgewater, N.J.

As long as people let Newt and his special-interest buddies do their thinking for them and buy the GOP's self-serving mantra, the real reasons for our problems—such as global competition and the lack of secure, well-paying jobs—won't be adequately addressed.

Steve Nesich
Seattle
StevenN162@aol.com

Your article confirms my growing suspicion that your magazine has been infected with proponents of the liberal ideology.

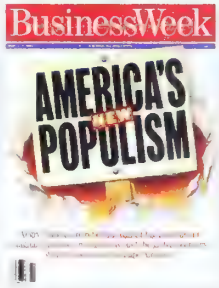
Your motives for denigrating conservatives and their spokesmen as "angry," "militant," "radical," and "hate-mongering," in the guise of honest concern for America's future, are very obvious and cast doubt on the veracity of other information in the magazine.

B. Clark Smith
Crystal Lake, Ill.

The negative phrase "big government" is a meaningless one that only distorts the truth about our country. We live in a huge country; therefore, we have "huge government." There will never be "little government" in this country but only the kind that we feel serves our individual ideology.

Stephen Miller
Mishawaka, Ind.
MGSStudio@aol.com

Your story drew an excellent portrait of the frustration of the American people at the lack of leadership in dealing with a changing world. Most of our leaders, to their discredit, are either exploiting this anger for their own purposes or hoping it will blow over.



ANGER AND OPPORTUNITY

"Business leaders need to counter the demagogues and show grassroots Americans they have nothing to fear from today's changes"

The leadership vacuum presents a tremendous opportunity to the business community. With a huge stake in the world economy, and as suppliers of millions of jobs dependent on world trade, business leaders need to counter the demagogues and show grassroots Americans they have nothing to fear, from today's changes, that in fact their lives can be immeasurably richer because of them.

Keith Collins
President
PowerComm
Washington

While there is certainly a conservative element in modern populism, your poll hints at a different story. The only truly popular individual was Colin Powell. Jesse Jackson also had a following. Surprisingly, Bill Clinton was the only politician in the group to be liked by more

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Everything A CEO Should Know About Data Storage:

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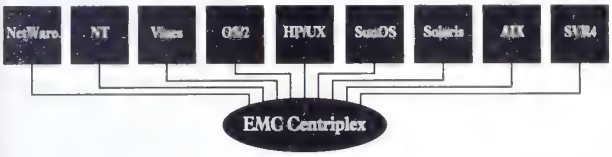
Everything An IS Manager Should Know (Now That The CEO Knows The Facts On The Left):

1. There is an avalanche of information now running through your company. It is growing. 2. The more information your company creates, the more information your company needs. 3. It's now tougher than ever to distribute, manage, store and protect the integrity of your information. 4. Successful companies are reorganizing themselves around the competitive use of information. 5. Chances are, your competition is using storage to gain competitive advantages. Not just to save money but to make money and to increase market



share. 6. For instance, by storing their information in central locations, companies are moving, managing and controlling their information more efficiently than before, and getting their products to market faster. 7. The Gartner Group reports that roughly half of machine-readable data now reside on desktops. How well your company uses, leverages and protects its open client/server-based information will determine its performance. 8. EMC is the leader in data storage and retrieval systems. We focus all of our resources on this one area, getting the best technologies to you first, giving you an edge no one else has. 9. With the highest performance, capacity and availability, our systems will increase your profits, increase your market share, make your customers happier and ensure the integrity of your information. 10. EMC systems maximize the performance and value of your CPUs, your network and your software like no other storage available, extending the useful life of a CPU by several years. 11. We package best-of-breed cache, disk and memory technologies in a way that has revolutionized DASD-helping you manage information better while drastically reducing floor space requirements

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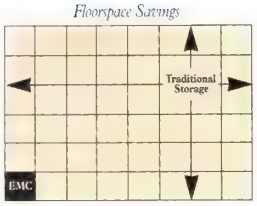

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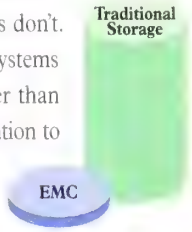

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EDITOR'S MEMO

A BEST-SELLER LIST THAT SHINES A LIGHT ON BUSINESS

In this issue, BUSINESS WEEK launches a new monthly feature—a best-seller list devoted to business books (page 20). The list is a logical extension of our Books section, created 25 years ago, and our annual Best Business Books list. The best-seller list is designed to help our readers spot the books that have struck a chord among people interested in business issues. As far as we know, there is no national best-seller list devoted only to business-related books. Our list will also be available on BUSINESS WEEK Online through America Online Inc.

We were fortunate to have someone well-suited to create the new list. Denise Demong, who has edited our Books section for seven years, has spent months talking to publishers and booksellers to create our network of 20 chains and independent booksellers that are in the front rank of business book retailing. Scoreboard Editor Frederick F. Jespersen and Economics Editor Michael J. Mandel helped with the statistical underpinnings. Erica Lapkin, our manager of new business development and a key member of our BUSINESS WEEK Online team, constructed our database.

The best-seller list caps Denise's term as books editor. She is moving on to take over our People department, while Hardy Green moves from our copy desk to the Books section. Hardy has had a varied career as a journalist and teacher. He wrote *On Strike at Hormel*, a book on labor troubles at the meatpacking company, and has taught at the State University of New York at Stony Brook, where he earned a PhD in American history. Thanks to Denise, and best wishes to Hardy.

Stephen B. Shepard

Editor-in-Chief

people than disliked him. In fact, liberals and moderates dominated the upper ranks of the rated public figures. When we turn to the negative ratings, we see that a majority of the respondents did not like Pat Robertson, Oliver North, and Rush Limbaugh. Ross Perot and Newt Gingrich also had high negatives.

This is amazing, since these people were mentioned in the article as a driving force behind the new populism.

Deborah Griffin-Sadel
Red Bank, N.J.

BUSINESS GETS BEHIND REGULATORY REFORM

"Voodoo regulation?" (Science & Technology, Mar. 13) left two erroneous impressions: first, that a significant portion of the business community is not supportive of regulatory reform; second, that if the reform legislation passes, business will be worse off rather than better off.

The business support for regulatory reform is extremely widespread. The Alliance for Reasonable Regulation signed up more than 1,700 members—businesses and associations—in two months and is still growing. Most of the leading business groups are members, including the U.S. Chamber of Commerce and the National Association of Manufacturers, of which I am president.

U.S. business is supporting regulatory reform because, under current law, many regulations are based on outdated or implausible scientific data and methodology and fail to weigh the cost and benefits in a rational manner. There is nothing illusory about the benefits all Americans will reap from overdue regulatory reform.

Jerry Jasinowski
Chairman
Alliance for Reasonable Regulation
Washington

CORRECTIONS & CLARIFICATIONS

"South Korea: A flying leap toward the 21st century?" (International Business, Mar. 20) should have said that Hyundai Electronics Industries Co. invested $150 million for a 40% stake in Maxtor Corp. in 1993. Hyundai did not take over Maxtor.

"A $7 billion passport?" (The Corporation, Mar. 20) incorrectly reported that Dow Chemical Co. paid $7.7 billion to acquire the companies that became Marion Merrell Dow Inc. Dow says it paid less than $5 billion.

FRANCE: A CLARIFICATION ON IRAQ

I feel obliged to correct some statements regarding France in "Embargo? What embargo?" (News: Analysis & Commentary, Mar. 20).

France's interests section at the Rumanian Embassy in Iraq was opened on Mar. 1, not Mar. 5. This means your subtitle was incorrect in stating: "Soon after U.N. Representative Madeleine Albright lobbied world leaders to keep shunning Iraq, France stationed an envoy in Baghdad." France's decision was taken before Representative Albright's lobbying efforts, not after. The decision had, in fact, been announced several weeks earlier (on Jan. 6, to be precise).

Contrary to what you state, France is not "the first member of the coalition that beat Saddam Hussein to open up a diplomatic office in Baghdad." It does not have diplomatic relations with Iraq. And the U.S. has had an office for American interests at the Polish embassy in Iraq for a number of years.

Jacques Andréani
Ambassador of France to the U.S.
Washington

Editor's note: Our story used the date that France's envoy arrived in Baghdad rather than the date the office opened. While both the U.S. and France have offices to represent their interests in Iraq, the U.S. relies on Polish officials rather than its own envoy.

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BY STEPHEN H. WILDSTROM

PROGRAMMING WITHOUT TEARS

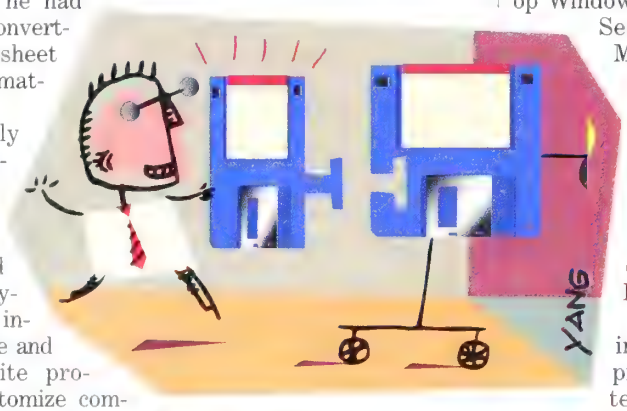
My wife, Susan, is a high school mathematics teacher, and for years she has kept her class records on a spreadsheet. Recently, she was looking for a better way to get gradebook data into student progress reports. My son David picked up the challenge. In just a few hours, using the built-in programming capabilities of Microsoft Excel, he had the computer converting the spreadsheet data into automated reports.

You probably aren't as comfortable with the idea of programming as a 14-year-old boy is. But anyone willing to invest a little time and effort can write programs and customize commercial applications, thanks to new software tools.

True, both spreadsheets and word processors have long offered knowledgeable users the ability to simplify actions by recording a string of keystrokes and mouse clicks in "macros" that can be played back with just a mouse click or two. But the technique can be complicated, and there's no room for variations.

CLICK FIX. Many leading applications now make it easy for a user to modify a recorded macro or to write a program from scratch. For example, you probably know how to construct a form-letter template in your word processor. With a little extra work, you could customize those letters by clicking on a list of choices at various places in the text.

Perhaps you have some simple chore—from maintaining a contact list to running the office basketball-tournament pool—that none of your applications handles quite the way you want. If you're a little more adventurous, you can go beyond built-in programming tools and create your own application with Microsoft's $130 Visual Basic (206 882-8080) for Windows or Novell's AppWare (800 451-5151), part of its PerfectOffice suite. (Macintoshes may be easier to use but are considerably harder to program; there are no real Mac equivalents.)



Visual Basic and AppWare are programming languages. But unlike the cryptic languages of old, you can do much of your programming through point-and-click choices without memorizing a lot of complicated commands. And they will be instantly familiar to anyone who has used the macro languages in Microsoft Office or PerfectOffice.

Of course, you don't want an amateur writing a complicated application that your whole business depends on. But programming tools—even for mission-critical work—now make it much easier for the people who use the programs to play a more active role in their ongoing development.

DIGITAL CPA. A couple of years ago, for example, margin pressures in the corporate-audit business caused Price Waterhouse to decide that it needed to automate the process used by accountants to plan their review of a client's books. The company's in-house programming staff chose Allegro CL, a version of the LISP programming language, from Franz Inc. (800 548-3600) to develop Windows-based software. Senior manager Maureen McGowan, a chartered accountant who had done only a bit of programming, set to work with a small team of software developers in San Francisco.

In traditional industrial-strength programming systems, even the smallest change requires that a new prototype be generated, a process that can take hours. But Allegro CL allows for incremental changes, so McGowan could suggest a modification to the programmers and see the results almost immediately. The program, called Planet, is now in final field testing and will be given to Price Waterhouse accountants this fall. McGowan says the result should be "more consistent and efficient planning of audits"—and lower costs.

You may not be in the market for a megaproject such as Planet. But there are probably a dozen little ways in which a bit of programming might improve your high-tech life. Give it a try.

BULLETIN BOARD

POCKET ORGANIZERS

A PLANNER YOU CAN TALK TO

If you find getting your data into pocket organizers with write-on screens or tiny keyboards a frustrating exercise, you might want to consider the Voice Input Planner 9000 from Sycom Technologies (215 222-9117). The $295 VIP allows you to dictate your memos, appointments, or other reminders and play them back as needed. It can hold up to 11 minutes of talk, although you can greatly improve the sound quality by settling for less recording time. The seven-ounce unit also functions as a conventional personal information manager (including minuscule keyboard), with the added ability to dial a number by holding the VIP up to the mouthpiece and letting it beep right into the telephone.

NOTEBOOKS

FAST, YES—CHEAP, NO

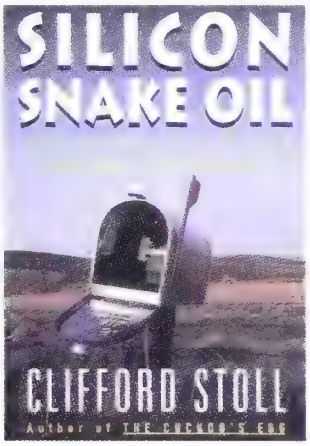
Notebook computers continue to challenge state-of-the-art desktops for sheer processing power. The latest entrant, the TravelMate 5000 from Texas Instruments (800-848-3927) is powered by a 75 megahertz Pentium processor and features the same speedy input-output design used on desktop machines. But there's still a big difference in price. The new TI units start at just under $6,000, about twice the cost of a similarly equipped desktop.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

LICON SNAKE OIL
econd Thoughts on the Information Highway
Clifford Stoll
ubleday • 247pp • $22

NFOBAHN WARNING FLAGS

Clifford Stoll helped make the Internet hip. In recounting his pursuit of a fiendish gang of Ger- an hackers who had stolen informa- on from his computers and sold it to e KGB, Stoll's first book, *The Cuckoo's gg*, made the I-way seem like John e Carré territory—even though this ie-life adventure was set in the drea- world of operating systems, network des, and communications protocols. iblished in 1989, *Cuckoo's Egg* sold ell and did a lot to bring the then not- dely-used Internet into blic view.



Now, when you can't em to get away from e Internet, Stoll is ck. But this time, the tronomer-turned-com- ter-security-expert is iving a yellow caution g: Before we vault into e online future, Stoll irns in *Silicon Snake l*, we should pay care- l attention to bogus iims and hidden costs. The Net, boosters iintain, can help with erything from educating the kids to storing participatory democracy. It ll slash health-care costs with tele- edicine and turn businesses into super- icient virtual corporations. Disembod- l cybercitizens will overcome the undaries of poverty, inadequate iools, and race. "The key ingredient in eir silicon snake oil is a technocratic lief that computers and networks will ike a better society" and cure social oblems, writes Stoll.

It's not so, and the price of falling this hype, he says, is staggering. At k are vital institutions such as the ighborhood library and our entire ed- ation system. Rather than fixing our iools, Stoll asserts, we're diverting money from things that could make a difference, such as more books and better teachers. "Edutainment" software, he says, is nothing more than eye candy that actually makes the job of learning harder because, once exposed to it, kids won't sit still for the real thing.

Online libraries also rank high among Stoll's *bêtes noires*. As libraries race to replace card catalogs with databases and push aside reference books and periodicals to make room for computer terminals, they are courting disaster. Increasingly, only the material that's available online will survive. From your library or home, you'll be able to surf from one end of the World Wide Web to the other, but what you'll get is a jumble of contextless data. In their relentless pursuit of discrete factoids, computers deconstruct conventional forms of information—books—into bytes. "Data isn't information any more than fifty tons of cement is a skyscraper," Stoll insists. You would learn more about a topic by leafing through a card catalog—or by asking a librarian. But, Stoll fears, by the time we figure that out, libraries will have been undermined.

And what of the online communities that come alive in the chat rooms of cyberspace? Intelligent online discourse, he says, is drowned out by drivel and extremist bullies. If cyberspace is a neighborhood, it's not a nice one.

It would be easy to dismiss Stoll as a Luddite, a curmudgeon, or a spoilsport—the kind of kid who, now that everybody has discovered his playground, wants to take his ball and go home. But Stoll is none of the above. Through highly conversational prose that includes tales of spelunking in Arizona and studying in China, Stoll reveals himself to be a thoughtful, witty observer. He's the type of person you'd like to meet in an online chat room but never do. He admits he's not the first to warn about Information Age perils. But his is a unique point of view: that of a quilt-making, cookie-baking Berkeley dweeb—who also happens to be a serious scientist.

It's his scientific experience that informs Stoll's most fundamental criticism: Our faith in computers and in "information" is built on shaky foundations. He describes his own two-year effort to analyze the composition of Jupiter's clouds using satellite data. It's a thrilling breakthrough when the computer model "reveals" that the atmosphere is composed of particles of ammonia topped by ice crystals. "Yes, but do I believe it today?" asks Stoll. "The question makes me squirm." His computer model, like every other, is founded on the programmer's assumptions, choice of data, and understanding of the material—none of which is infallible.

Yet government, businesses, investors, and ordinary citizens increasingly look to the computer for the definitive answer. "Simply by turning to a computer when confronted with a problem, you limit your ability to recognize other solutions," he warns. What makes a business excel are good ideas and smart, hard-working people. The Net can't do anything to make up for a lack of those.

Stoll hasn't turned his back on the Net. While pointing out what a waste of time Net-surfing can be, he still spends hours a day in the glow of his monitor. And in the end, he allows that he's hopeful. "For all my kvetching, I'm all grins to see people pressing limits and finding new ways to express themselves." Indeed, in the months since Stoll's manuscript was completed, there has been an explosion of innovation on the Net. Some of this work—such as new indexing systems—will address some of Stoll's concerns. Meantime, Net enthusiasts would do well to heed his advice: Proceed with caution and keep an eye on the rear-view mirror.

BY GEOFF LEWIS

Senior Editor Lewis heads up BUSINESS WEEK's coverage of information technology.

THE PRICE OF BELIEVING THAT COMPUTERS CAN CURE SOCIAL ILLS, SAYS STOLL, IS STAGGERING

THE BUSINESS WEEK BEST-SELLER LIST

Need help staying abreast of the hot topics in the business world? Here is the first major compilation of best-selling business books.

The BUSINESS WEEK Best-Seller List is based on a survey of independent and chain booksellers representing approximately 1,085 retail outlets nationwide. We selected the participants after interviewing major publishers of business books to find stores that do a steady, sizable business in these books, choosing an appropriate sample to provide wide geographic coverage.

Each participating bookseller has agreed to report monthly unit sales of business books, which are defined by BUSINESS WEEK as business narratives as well as books on economics, management, sales and marketing, small business, investing, personal finance, and careers.

We weight the data submitted by the stores to reflect the overall balance of sales between chains and independent as tracked for us by publishers.

The current list is based on sales fo February. The next list, reflecting Marc sales, will appear in the May 1 issue.

In addition to appearing in the maga zine once a month, the best-seller lis will be available on America Online a part of BUSINESS WEEK's "Busines Bookshelf." For further information con cerning America Online, call (800) 64 4848 and mention BUSINESS WEEK.

HARDCOVER

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8 **SECRETS OF THE STREET** by Gene G. Marcial (McGraw-Hill • $20) *Insider trading is business-as-usual, says BUSINESS WEEK columnist.*

9 **"WHY SHOULD WHITE GUYS HAVE ALL THE FUN?"** by Reginald F. Lewis and Blair S. Walker (Wiley • $22.95) *The life of Lewis, the late head of TLC Beatrice*

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14 **WINNIE-THE-POOH ON MANAGEMENT** by Roger E. Allen (Dutton, • $17.95) *Using A.A. Milne's beloved bear to illustrate six fundamentals.*

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PAPERBACK

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Thomas Quarry
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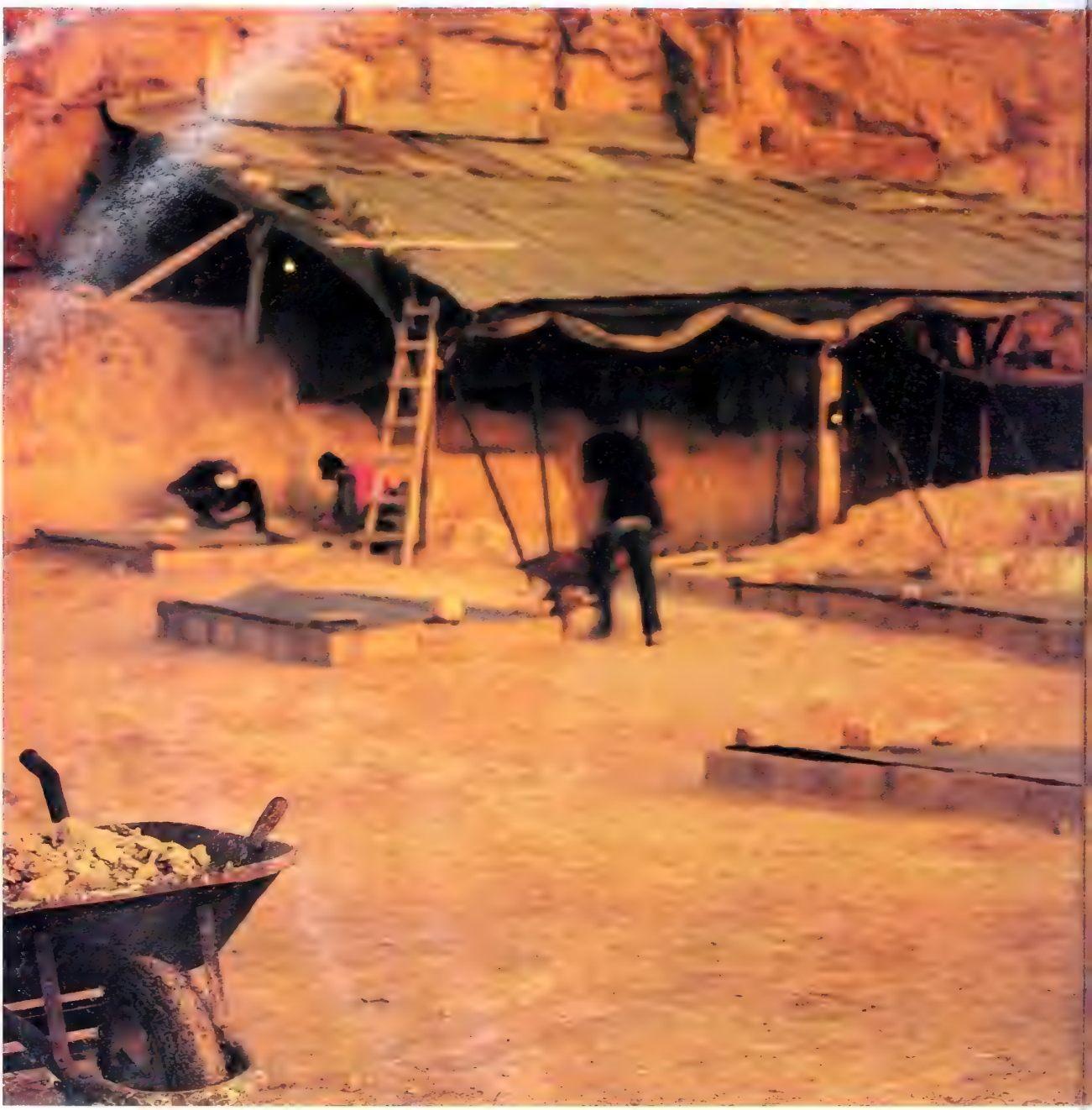

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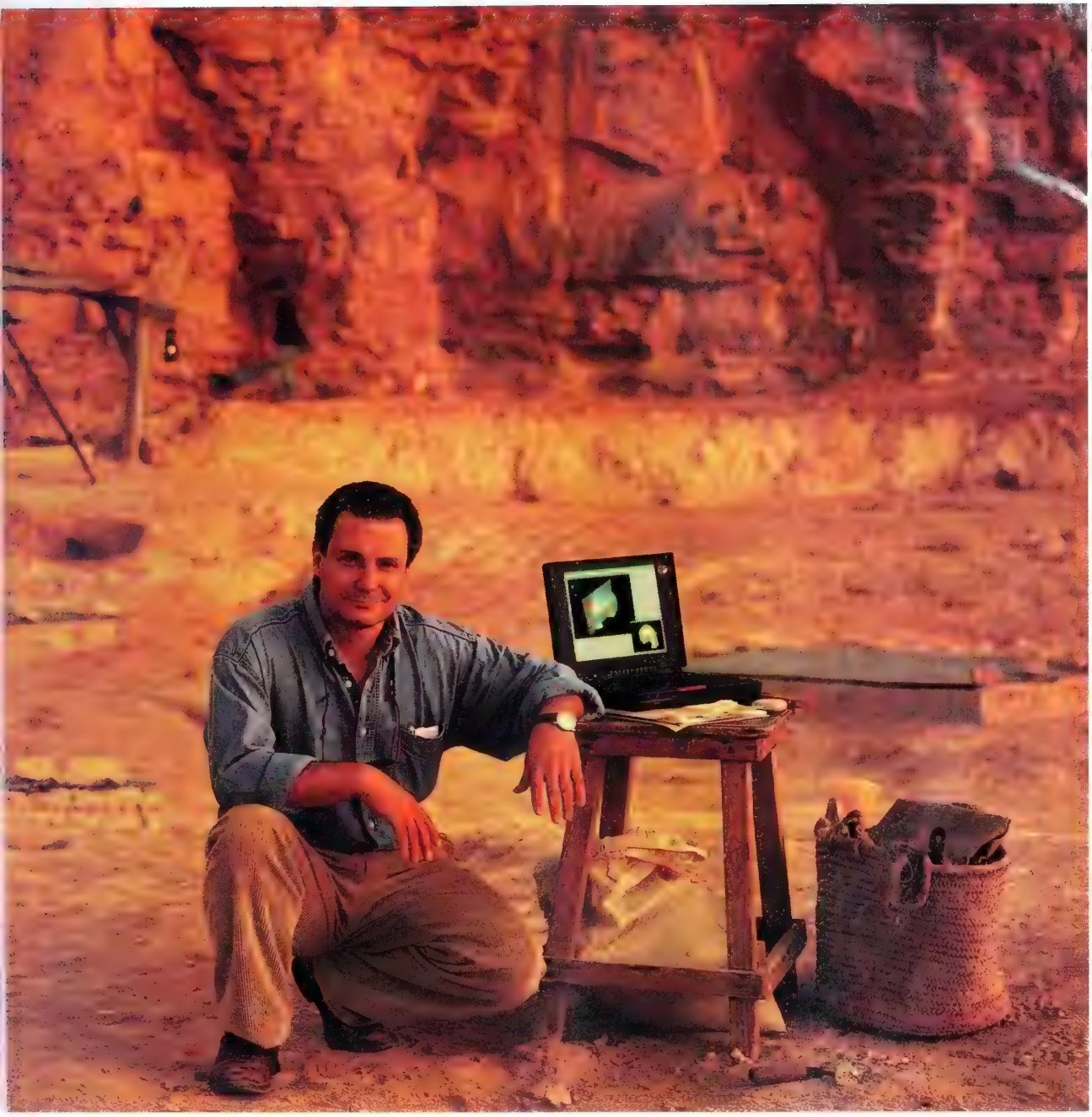

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BY GARY S. BECKER

NEVER MIND CONGRESS—THE REAL REFORM ACTION IS IN THE STATES

SLASHING: Voter fury and regional competition for business has local governments acting fast to cut taxes and regulatory burdens

Overshadowed by the House Republicans' efforts to implement the Contract With America are revolutionary proposals by states and cities that may have a greater impact than what ultimately happens in Congress.

Some 30 states are planning to reduce taxes, while New Jersey, Michigan, and a few others have already begun the process. California, New York, and Massachusetts were leaders during the past 30 years in expanding state spending and regulations. But all now have Republican governors—Pete Wilson in California, George W. Pataki in New York, and William F. Weld in Massachusetts—who are strong advocates of cutting taxes and red tape.

I was a member of the Governor's Task Force on California Tax Reform & Reduction appointed by Wilson in 1994. We suggested, and he endorsed, a 15% across-the-board cut to be phased in over a three-year period in state personal income and bank and corporation tax rates. In New York, after years of growth in taxes, Pataki was recently elected on a platform that pledged to cut state income taxes by 25% during the first four years of his term. Weld has renewed proposals for tax cuts that are expected to be approved in some form by the state legislature. Democratic governors have also heard the voters' message, and some are advocating tax and spending cuts.

FORCED TO WORK. Total state and city government tax revenues are almost as large as the federal government's and have risen at about the same rate since the 1970s. However, part of the growth in state spending has been mandated by federal programs such as Medicaid. This is why governors from both political parties are urging Congress not to impose additional mandates on them.

Local governments are not limiting their reforms to taxes. Massachusetts, Virginia, California, Wisconsin, New Jersey, and other states are seeking radical alterations in the welfare system. The Virginia legislature recently passed a law modeled after one enacted in Massachusetts that forces recipients to work, eliminates benefits to parents who have been on the welfare rolls for two years, and denies aid to children born to mothers already collecting relief.

Some states are also ahead of Congress in cutting regulations and making drastic changes in the tort system. Governor Wilson wants to cap punitive damages in tort suits at three times the direct losses to plaintiffs and encourage litigants to use private arbitration instead of the courts. He also hopes to discourage frivolous suits against defendants who have deep pockets and who might settle rather than go through costly litigation.

California is planning to reduce its onerous regulatory burdens intended to protect the environment. It will propose a constitutional amendment to require a two-thirds vote by the legislature to approve all laws imposing new compliance costs. The state also will require an economic analysis of the benefits and costs of all suggested state environmental regulations.

LIGHTING A FIRE. The Republican mayor of New York, Rudolph W. Giuliani, facing an enormous budget gap, is slashing city spending. Giuliani wants to privatize several city-owned hospitals and cut Medicaid spending and other social services.

These state and city tax and spending cuts are partly responses to the same voter discontent with politicians and government that is lighting a fire under Congress. But local governments are also motivated by a consideration unique to them: growing regional competition to attract business and skilled workers. Computer, electronics, biotechnology, insurance, engineering, scientific research, and other manufacturing and service industries are footloose and don't need to locate near raw materials, ports, or other transportation facilities. They choose where to locate partly on the basis of the tax and regulatory climate.

The California Task Force's proposals for tax reduction were partly motivated by competition from Utah, Oregon, and other Western states with better business climates. Business migration to these states is expected to accelerate if California does not lower its taxation of individuals and businesses and reduce regulatory burdens. Other states are also reexamining how their taxes and regulations measure up relative to neighboring and more distant states competing for the same business.

Competition for people and business in the decentralized spending of a federal system of government helps force local programs to be more responsive than national programs to the wishes and needs of citizens.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution.

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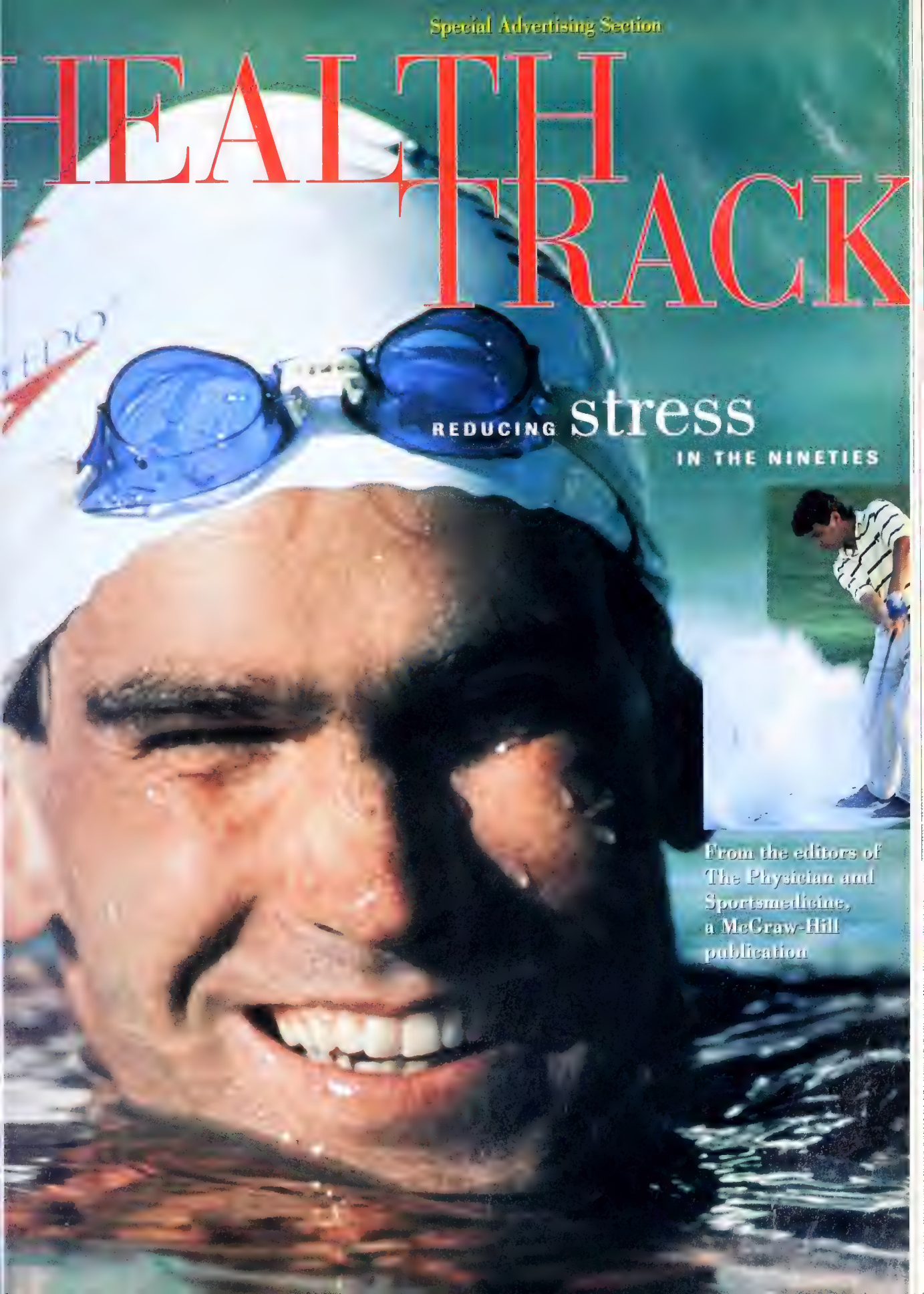
REDUCING stress IN THE NINETIES

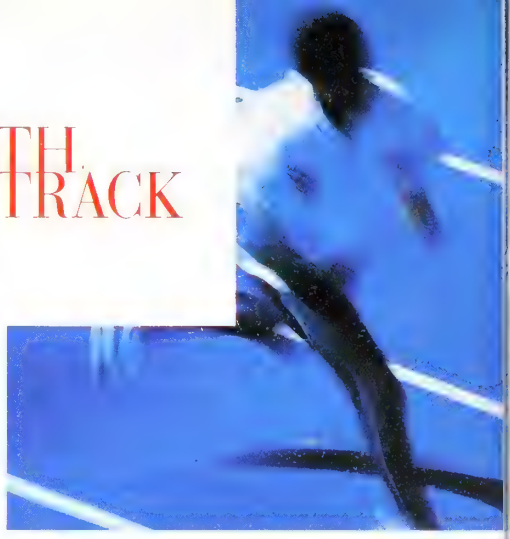


From the editors of The Physician and Sportsmedicine, a McGraw-Hill publication

HEALTH TRACK

Stress in the Nineties

MANAGE YOUR HEALTH LIKE YOU MANAGE YOUR BUSINESS



If ever there was a condition that has linked human beings over the millennia, it's stress. Stress is the saber-toothed tiger at your heels, the auditor at your elbow. It's the future of hundreds of employees riding on the decision you make tonight. It's discovering after an all-night flight for the sales call of your life that you've packed a tuxedo and no shirt.

Stress is so ubiquitous, so much a part of life that few of us stop to examine its causes and effects. And face it: Stress is also fun. More than necessity, stress is the mother of invention, the catalyst of creativity, the reason many of us leap out of bed in the morning. What would life be like without deadlines? How many creative, progressive ideas, even industries, have been conceived in crisis and born in urgency? We love this constant reaching beyond our grasp, and many of us thrive on it.

But stress also has a dark side that we're too often familiar with: unrelenting demands, moving targets, hostile colleagues, political intrigue, lack of control or support, responsibility beyond our capabilities, plain failure. Too much of this kind of stress, particularly in the absence of effective coping strategies, and there goes our health.

Sensitivity to stress is as individual as we are. The lawyer working toward her day in court may feel more excitement than stress as she puts in night after night preparing her case. But the department manager, responsible for a project he doesn't believe in under direction he doesn't respect, may find himself sick from the stress – though he hasn't logged an extra minute.

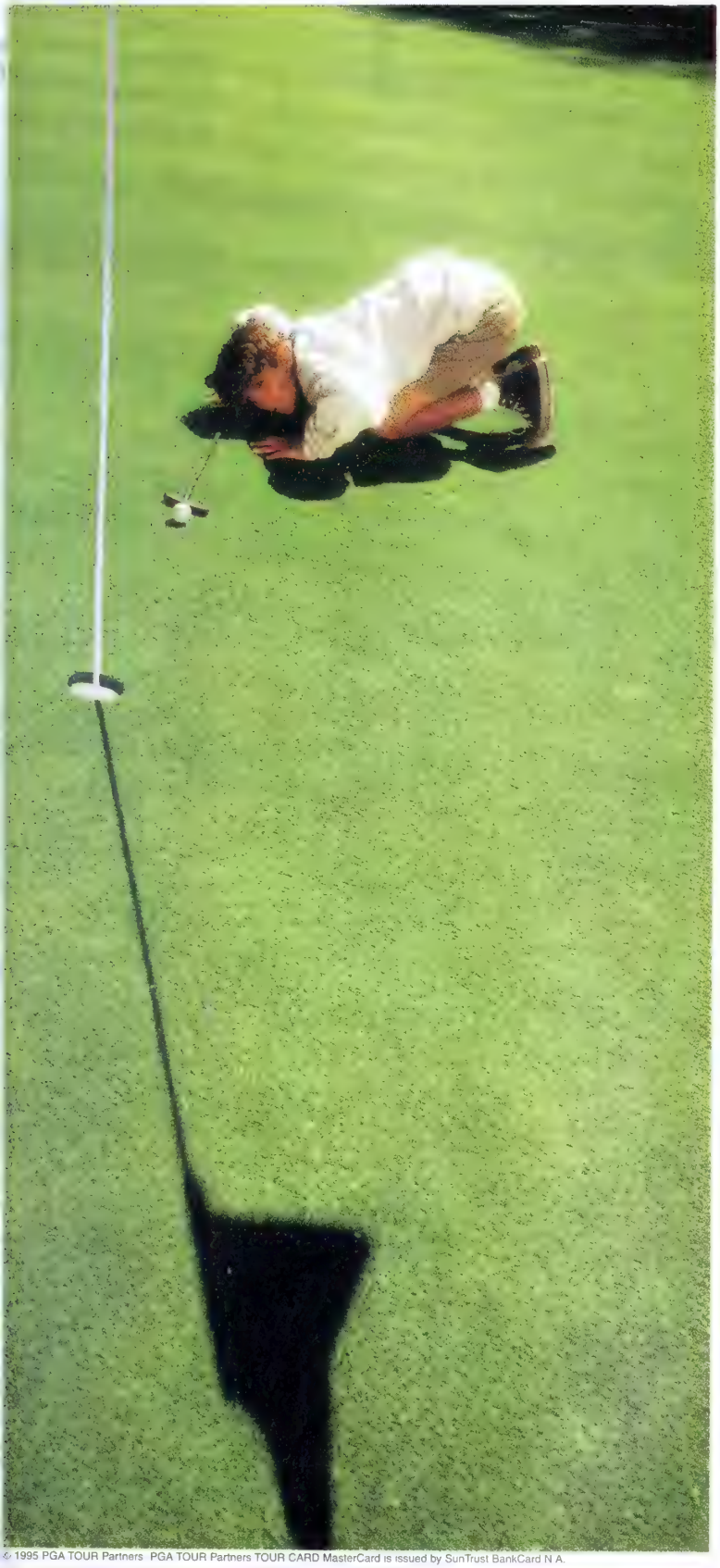
Psychological stress can lead to biochemical alterations and physiological responses that are potential catalysts of disease. Responses range from tension headaches to debilitating migraines; diseases include cardiovascular disease, suppressed immunity, gastrointestinal disorders, aggravation of asthma – even thyroid dysfunction. Perhaps as a comment on the times, a field of research is emerging called psychoneuroimmunology: the study of the biology of stress and the medical conditions linked with it.

John E. Sutherland, MD, a clinical professor of family medicine at The University of Iowa in Iowa City, compares the relationship between stress and life to the E string on a violin. If the string is too loose, the tone is flat. If the string is too tight, it breaks. The tone is perfect when the string is balanced. (It's worth noting that the string doesn't break right away, and may not even break after tightening it to the limit several times. Like people, the string breaks when the tension is unrelenting.) The quest to achieve balance in our lives is its own growth industry, responsible for a plethora of night classes, shelf after shelf of self-help books, tapes, magazine articles, clinical psychiatric specialization, spas, health clubs, and resorts. If balance were easy, the market for much of this would crash.

The most effective and dependable means for coping with stress is perhaps the most obvious: boosting health

But the most effective and dependable means for coping with stress is perhaps the most obvious: boosting health – the basic components of which are exercise and good nutrition. Exercise builds strength and stamina at the same time that it distracts and relaxes. Over time it lowers resting heart rates, reduces body fat, and improves sleep. Good nutrition keeps weight down, cells in good repair, and immunity strong. If anything so potent could be bottled and sold, the market for this product would soar.

AT WHAT POINT DID IT BECOME MORE THAN A GAME FOR YOU?



Your first set of clubs? The first drive that went and went and went right where you aimed? The first long iron you hit sweet? The turning point was different for each of us. But serious golfers share a common experience. Some of us also share PGA TOUR membership.

AN INVITATION TO JOIN PGA TOUR PARTNERS

What is PGA TOUR Partners? We're a group created by the PGA TOUR especially for golfers who share a love of the game.

As a member of PGA TOUR Partners, you're offered a number of ways to get closer to your favorite sport. For example, you are eligible to enter in Partners Classics tournaments on courses such as The TPC at Sawgrass.

Other membership benefits include a complimentary PGA TOUR or Senior PGA TOUR tournament guest pass, 10 issues of ON TOUR magazine, a personalized bag tag and the opportunity to apply for a PGA TOUR Partners TOUR CARD MasterCard®. All this for only $25.

You'll also have the chance to attend clinics hosted by instructors to PGA TOUR players, get access to famous courses, and participate in tournament Pro-Ams.

To join PGA TOUR Partners, call **1-800-PGA-TOUR** (1-800-742-8687).

Remember, the only way to work at your game is to play.

PGA TOUR PARTNERS

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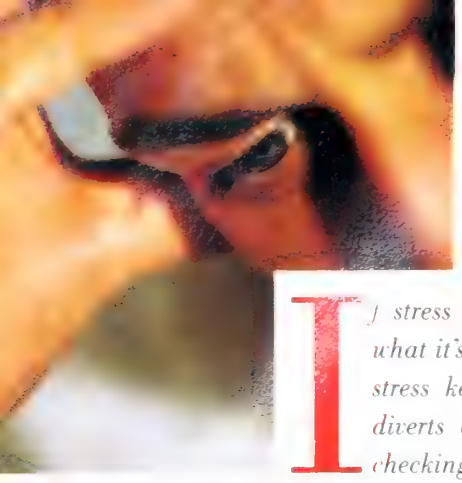

Beware The Early Warning Belly

If stress is wrecking your heart, think what it's doing to the rest of you. When stress keeps you from exercising and diverts attention from your diet, just checking the shine on your shoes can resemble a swan dive from great height. Middle-aged men take note: Mounting evidence suggests that you're especially susceptible to such midbody obesity and the diseases increasingly linked with it.

C. Wayne Callaway, MD, describes a typical man whose health is ticking toward collapse: He's 45 years old, 5 feet 9 inches tall, weighs 180 pounds (20 pounds more than he did at age 25), and doesn't exercise. He doesn't look overweight but most of his weight gain is at his waist. In fact, his waist measures the same as his hips.

The man has subtle blood lipid abnormalities, his serum triglycerides are slightly elevated, and his high-density lipoprotein (HDL) cholesterol levels are low. These factors can indicate an underlying resistance to insulin that predates the actual development of diabetes by a decade or more, according to Callaway, an endocrinologist and medical professor at George Washington University in Washington, DC.

If the man doesn't increase his activity and reduce his abdominal fat as he moves into his 50s – particularly if he has a family history of diabetes – he can expect the triglyceride levels to continue up, the HDL levels to continue down. And even if he isn't "obese," he'll be a top candidate for developing heart disease.

The cluster of disorders linked to abdominal obesity – glucose intolerance, hypertriglyceridemia, hypertension, and non-insulin-dependent diabetes – has earned the forbidding name Syndrome X. Its threat is drawing increasing attention among researchers, and many physicians now consider measuring patients' waist-to-hip ratios as essential to an office visit as checking their weight.

Try it: Divide your waist measurement by your hip measurement. (Your waist is the smallest measurement between hips and chest; your hips are the largest measurement between waist and legs. Difficulty finding them may supply the answer you seek).

The American Heart Association recommends that your ratio not exceed 1.0 (for men) and .8 (for women). The US departments of agriculture and health and human services are more restrictive for men: Their Dietary Guidelines Advisory Committee recommends that a man's waist-to-hip ratio not exceed .95. If your ratio puts you on the brink of obesity, you have one more reason to get exercise into your life.

STOP STRESSING YOUR HEART

You've run your division your way for years. You're good at your job, challenged by the work, and your people respect you. Your division changes hands and suddenly you find yourself second-guessed, ridiculed, and dismissed by a new boss. You're spending more and more of your time justifying what you do – staying late, sleeping poorly. Your family's forgotten what you look like and your division is suffering. You wonder each day whether it's your last on the job.

This is stress, and your brain – the interpreter of the stress and the governor of your body's response – is sending Maydays through your adrenal cortex to your pituitary system to release catecholamines (adrenaline) and cortisol, which increase your heart rate and blood pressure. If a bear were chasing you this would be great: The increase in cortisol would bring protein and fats into your fuel line, and the catecholamines would convert glycogen into blood glucose—the chief source of energy for all organisms. With your heart working harder these nutrients would speed to your working muscles along with extra oxygen – and there you'd go like a goat up a mountain.

If you went ahead and ran up a mountain at metaphoric times like these you'd probably be fine: It's what your brain is telling your body to do. And for the most part, assuming you're otherwise healthy, short periods of stress on your own parallel

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IT'S 72° AND SUNNY. YOU'RE ON YOUR FAVORITE COURSE WITH YOUR FAVORITE FOURSOME. COULD IT POSSIBLY GET ANY BETTER THAN THIS?

No one can improve those days on he course when it just seems that ou're in paradise.

Yet players who couldn't imagine etting more from the game say that hey have gotten more. A lot more.

Join us. We're PGA TOUR 'artners, a group created by the PGA 'OUR especially for golfers who share love of the game.

Membership brings you a com- limentary guest pass to a PGA TOUR r Senior PGA TOUR tournament, 0 issues of ON TOUR, a personalized ag tag and the opportunity to apply for a TOUR CARD. And the chance to play on legendary courses under PGA TOUR tournament conditions, in Partners Classics tournaments. All starting at just $25.

As a member of PGA TOUR Partners, you'll receive:

A complimentary PGA TOUR or Senior PGA TOUR tournament pass

Eligibility to play in Partners Classics tournaments

10 issues of ON TOUR magazine

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The opportunity to apply for a PGA TOUR Partners TOUR CARD MasterCard®

You'll also have the opportunity to attend clinics hosted by instructors to PGA TOUR players and participate in tournament Pro-Ams.

Why not join us this year? We'll support you, enrich you, and delight you.

To become a member, call immediately:

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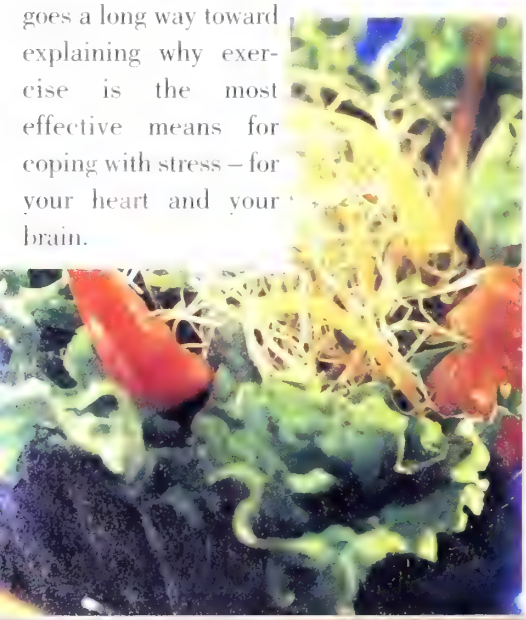
won't do much harm – particularly if you use effective coping strategies like exercise and relaxation.

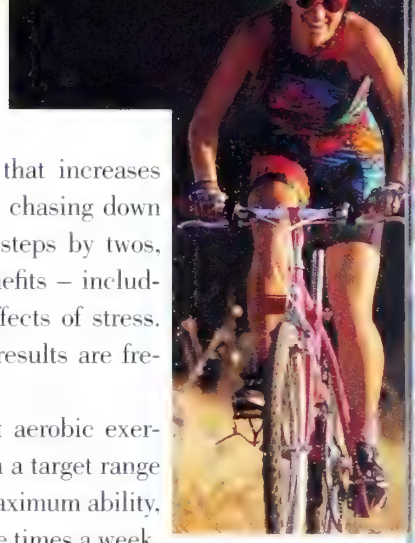
But without releasing some of this available energy – or balancing it – the neurohormones charging around your body will do a lot of damage over time. For example:

- Increased cortisol suppresses the immune system and healing processes.
- Extra fats in the blood increase the total cholesterol level and decrease the proportion of high-density lipoprotein (HDL) cholesterol (the good stuff). They also promote weight gain.
- Increased angiotensin raises blood pressure and stimulates release of another hormone, aldosterone, which in turn affects potassium secretion and renders the heart more vulnerable to rhythm disturbances. Aldosterone promotes salt retention, which contributes to hypertension as well.
- Increased platelet count increases the chance of clotting, which raises the risk of heart attack and stroke.
- Chronic stress lowers the stimulation threshold in the brain, so it takes less excitement to kick your stress response into gear.

As coronary obstruction develops, you respond to mental stress that occurs 20, 30, or 40 times a day with a rise in resistance to blood flow and a fall in cardiac output – a prescription for heart attack. You now react to mental stress just exactly as if a bear were chasing you – every day of your life. Which goes a long way toward explaining why exercise is the most effective means for coping with stress – for your heart and your brain.



Do It *Now*



Any exercise you do that increases your heart rate, from chasing down a cab to taking the steps by twos, will have fitness benefits – including mitigating the effects of stress. But the keys to real, measurable results are frequency, intensity, and duration.

Researchers have found that aerobic exercise that works your heart to within a target range of 70 percent to 90 percent of its maximum ability, for at least 20 minutes three or more times a week, will give you the most significant fitnes gains. Seventy percent of your maxi mum may seem discouragingly harc but at that level you'll still be able t carry on a conversation, strategize for sales meeting, compare notes on pending acquisition, even harmoniz with your headphones. And it's consid erably less work than hauling you bags from an airline ticket counter t the departure gate at an airport.

YOUR TARGET HEART RATE

AGE	BEATS PER MINUTE AT 70% OF MAX. HEARTRATE	BEATS PER MINUTE AT 90% OF MAX. HEARTRATE
25	137 bpm	176 bpm
30	133 bpm	171 bpm
35	130 bpm	167 bpm
40	126 bpm	162 bpm
45	123 bpm	158 bpm
50	119 bpm	153 bpm
55	116 bpm	149 bpm
60	112 bpm	144 bpm
65	109 bpm	140 bpm
70	105 bpm	135 bpm

Aerobic exercise, such as dis tance running, depends on a stead supply of oxygen from the aerobi system. The anaerobic system, at wor during intense activity such as weigh lifting, supplies limited amounts c energy for the short term.

During the first few minutes c exercise, both systems are at work Beyond ten minutes, as long as you keep your effort within your targe heart rate range, your aerobic system takes over and uses your fat stores t fuel your exercise. Besides increasing your risk of injury, more intense ex ercise will activate your anaerobic system, which uses up muscle tissue fo protein and glycogen. This is why moderate intensity exercise of longer du ration does the most for your cardiovascular system and weight control - and thus, stress. If you stay in the target heart rate or aerobic range, you'l continue to strengthen your aerobic system.

To determine your target heart rate, first estimate your maximun heart rate by subtracting your age from 220. If you're 40, your maximun heart rate estimate is 180 beats per minute (bpm). Your target heart rate i 126 bpm if you're shooting for 70 percent of your heart's maximum; 16: bpm if you're going for 90 percent. 220 - 40 x 70 percent = 126 bpm. 22(- 40 x 90 percent = 162 bpm. 126 - 162 bpm is your target heart rate range

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IF YOU DON'T KNOW YOUR CHOLESTEROL NUMBER, WHAT ARE YOU WAITING FOR?

Time is not on your side. If your cholesterol number is high, it could have serious consequences. And doing something about it now could have major benefits. Just a 10% cholesterol reduction before age 40 can cut your risk for heart disease by 50%*. So the sooner you know your number, the better. The ADVANCED CARE™ Cholesterol Test gives you your number at home in about 15 minutes with results as accurate as tests used by doctors. The time to test is now. Don't wait until it's too late.

THE HOME CHOLESTEROL TEST AS ACCURATE AS THOSE USED BY DOCTORS.

Single use test. Double kit also available.

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Once you know your range, you can figure out how hard you're working during exercise. Feel for your pulse, stop exercise, and start counting immediately because your heart rate will drop quickly. Make sure your touch is light – too much pressure will skew the results. Fifteen seconds is enough. Multiply the number of heart beats by four and you've got your beats per minute.

If you're exercising above your target heart rate range, ease up and after awhile take your pulse again. With practice you'll be able to associate how hard your heart's working with how you feel. But when you first start exercising you may be surprised at how easy it is to get your heart rate up into the target zone.

Higher heart rates result in greater fitness gains. At very high target heart rates you can achieve fitness gains even if you exercise for only 10 minutes, but the risks increase at such levels of intensity. Play it safe: Precede any new exercise undertaking with a visit to your doctor.

Make It Fun!

Richard H. Strauss, MD, editor-in-chief of The Physician and Sportsmedicine and a sports medicine doctor at The Ohio State University in Columbus, offers an excellent model for a successful approach to exercise. "Basically I'm lazy and I'm busy – put those together and I won't do anything unless it's fun," says Strauss, who at age 56 hasn't gained more than 5 pounds since high school and has a resting heart rate of 65 beats per minute – pretty good for a grown-up.

When he has time, Strauss swims or cycles at a nearby gym, and when he travels he takes along his in-line skates. But since his schedule can implode under patient pressure, he relies on a step stool – both at work and at home.

"When I'm doing paperwork, I don't have to be sitting at my desk," he says, adding that he keeps the stools handy for some low-tech stairclimbing. "It gets my blood going, keeps me awake – otherwise I'd fall unconscious over the papers I'm reading. And I don't do it till I sweat. I hate to sweat. Only time I like to be wet is when I'm in the water."

What Strauss has done for himself is to expand the definition of exercise. Though vigorous aerobic workouts are best for gaining top fitness, they're not the only form of exercise. Strauss has found he can improve his health considerably by simply being active – and so can you.

MUSCLE CONTRACTION OR "TENSION HEADACHES" USUALLY ARISE DURING A STRESSFUL OR EMOTIONALLY CHARGED EVENT, WHILE VASCULAR HEADACHES OR "MIGRAINES" OCCUR AFTERWARDS.

Walking to work or parking farther from the door, gardening or carrying your clubs around the golf course still pay big health dividends over time. They're also comfortable, convenient – and fun. And because you're likely to stick with them longer, they'll help you control your weight: A calorie burned is still a calorie burned – whether you're hoeing or rowing.

With this different view of exercise, a whole smorgasbord of possibilities opens up. Try this:

- ★ *List the physical activities you enjoy, ranging from walking in the park to dancing. Exclude nothing.*
- ★ *Commit to participating daily in the activities you listed, and shoot for a minimum of 30 minutes a day.*
- ★ *Squeeze some physical activity into the day, no matter how busy you are. Exercise performed in bits and pieces is fine: Ten 3-minute sessions count as much in terms of overall health (though not aerobic fitness) as one 30-minute session. Take the stairs at every chance. Carry only one bag of groceries per trip from your car to the house.*
- ★ *Include chores, such as mowing the lawn or washing windows. Although chores may not be fun they are exercise.*
- ★ *Recognize that all physical activity counts and is good for you. It doesn't matter how you burn calories, just that you do.*

WOULD I EVER STOP USING TYLENOL®?

NO. NOT FOR ACHES, FEVERS, STUFF LIKE THAT.

BUT FOR HEADACHES, I STOPPED TAKING IT, YEAH.

NOW I TAKE **EXCEDRIN.** WHY EXCEDRIN?

BECAUSE I STUDIED ALL THE MEDICAL RESEARCH? NO.

I TRIED EXCEDRIN.

IT RELIEVED MY HEADACHES BETTER.

WHY ELSE WOULD ANYBODY TAKE IT?

EXCEDRIN®. THE HEADACHE MEDICINE™.

"We've got three trucks
and we've never had

People and nature can live in harmony, according to John Sawhill, President of The Nature Conservancy. For instance, bison at the Conservancy's Tallgrass Prairie Preserve in Oklahoma share miles of pristine grassland with tourists and scientists. To protect and preserve the land, The Nature Conservancy gets corporations, landowners and private

nnd 300 bison, "

a single traffic jam.

General Motors

citizens to work together to help. The goal: safeguarding the environment without destroying jobs or businesses. That's a goal General Motors shares. So we're supplying funds, talent and even the GMC Trucks used to maintain Tallgrass. John says, "The Conservancy gets results you can walk around on." And the results are truly spectacular.

SEPARATE FAT FROM FICTION

Once you've adopted an increasingly active lifestyle, how do you eat to support it – satisfying your appetite and slowly losing weight? Exercise won't eliminate the need to pay attention to your diet: it simply gives you more maneuvering room.

One dietary ingredient that gets a lot of bad press is fat. Despite its satanic image, fat is an essential nutrient. It insulates your body to help you keep warm, helps you absorb fat-soluble, essential vitamins A, D, E, and K, and provides a concentrated source of energy for long hauls without food. A lean athlete, for example, typically carries more than 60,000 calories of stored fat.

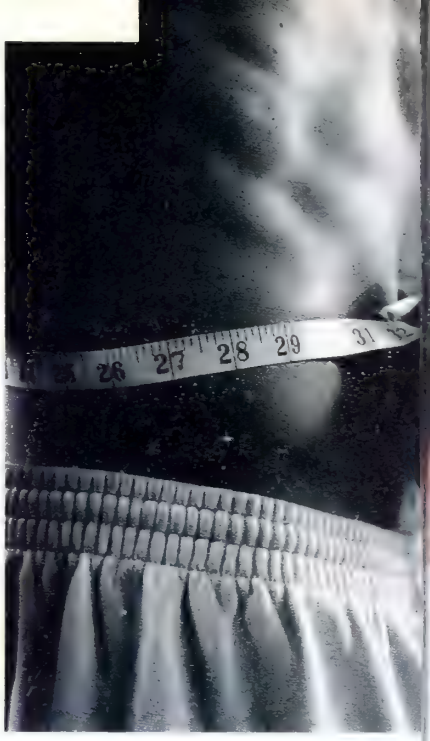
Most Americans derive about 37 percent of their daily calories from fat.

But not only that, fats taste good, smell good, and have an appealing texture. Fats are satisfying, take longer to digest than carbohydrates or protein, and provide a comfortable sense of fullness after eating. Trouble is, too much of our diet is fat.

Most Americans derive about 37 percent of their daily calories from fat. Healthy adults should drop that level to about 30 percent, according to nutrition and heart experts. Some athletes restrict their fat intake further to 25 percent to leave room for carbohydrate-rich, muscle-fueling foods.

For most active men, a low-fat diet would include 50 to 60 grams of fat per day; for women, 45 to 55 grams. But not all fats are equal.

Saturated fats are a problem. They include lard, butter, cheese, and other fats that are hard at room temperature. Most saturated fats are animal products, but the oils from tropical climates, such as coconut and palm, are also highly saturated. Saturated fats can increase both total cholesterol and low-density lipoprotein (LDL) cholesterol (the bad stuff).



Keep your saturated fat intake to less than 10 percent of your total daily calories. A simple way to do this is to limit saturated fats to no more than 20 grams a day. Cutting the high-fat cheeses and meats in favor of low-fat dairy foods and lean meat goes a long way to meeting this goal. And pay attention to packaged food ingredients to uncover added fats.

KNOW YOUR OILS

SATURATED
Coconut & palm

POLYUNSATURATED
Corn, soybean, safflower and sunflower

MONOUNSATURATED
Olive & peanut

Polyunsaturated fats are found in vegetable oils such as corn, soybean, safflower, and sunflower oils, as well as in fish. These fats are relatively soft at room temperature. They're healthier than saturated fats, but they are calorie-rich and should be eaten in moderation. Limit polyunsaturated fats as well to no more than 10 percent of total daily calories.

Monounsaturated fats tend to be liquid oils at room temperature. Their use may even have a positive effect on your cholesterol levels. Though found in animal sources as well, preferred sources of monounsaturated fats include olive oil, canola oil, and peanut oil. And although monounsaturated fats can comprise up to 15 percent of total daily calories, make sure your total calorie intake from fat doesn't exceed 30 percent – lest your attention to "good fat" turn into body fat.

continued on next page

If your doctor says you've got symptomatic benign prostate enlargement, help can be in the palm of your hand.

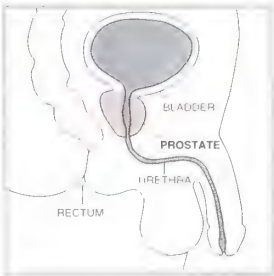
Many men mistakenly believe that an enlarged prostate is treated the same way for all men. But today there are more options than ever. By speaking frankly about your symptoms, you and your doctor can decide what is appropriate for you.

Is this you?	Yes	No
Do you get up more than once or twice a night to urinate?	☐	☐
Do you often have sudden, uncontrollable urges to urinate?	☐	☐
Do you have a hesitant or slow urine stream?	☐	☐
Do you have a frequent need to urinate?	☐	☐

If you answered yes to even one question, tell your doctor. Your symptoms may be caused by a condition called benign prostate enlargement (BPH). But remember, only a doctor can evaluate your symptoms and their possible causes. *While BPH is not cancer and does not lead to cancer, the two conditions can exist at the same time.*

Symptomatic BPH can be treated in several ways. In addition to surgery and monitoring the condition with regular checkups, now your doctor has oral prescription medicines. One oral medicine is PROSCAR, the only medicine for the treatment of symptomatic BPH that can shrink the prostate.

PROSCAR works by blocking a hormone that can cause the prostate to enlarge. *But it is important to know: PROSCAR doesn't work for everyone. Although the prostate may shrink, there may not be an improvement in urinary symptoms. However, in clinical studies with PROSCAR, some men have seen an improvement in their urinary symptoms after 2 weeks. Others have found that PROSCAR took up to several months to help them.* Because all men are different, you and your doctor will need to determine how PROSCAR is working for you.



The prostate surrounds part of the urethra, the tube that carries urine from the bladder. As the prostate enlarges, it can squeeze the urethra and cause urinary problems.

Today you don't have to live with the discomfort of symptomatic BPH. Ask your family doctor or a urologist if PROSCAR is right for you. **For free information that will help you discuss your symptoms with your doctor, call 1-800-261-8186.**

For the treatment of symptomatic BPH

PROSCAR® 5mg
(FINASTERIDE)

The only medicine that can shrink the prostate.

MERCK

Please see the patient information on the next page.

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JAP047R0302-MKP1087-8186

PATIENT INFORMATION ABOUT PROSCAR® (Prahs-car)
Generic name: finasteride (fin-AS-tur-eyed)

PROSCAR is for the treatment of symptomatic benign prostatic hyperplasia and for use by men only.
Your doctor may prescribe PROSCAR if you have a medical condition called benign prostatic hyperplasia or BPH. This occurs only in men.

Please read this information, as well as the leaflet which accompanies your medication, before you start taking PROSCAR. Also, read the leaflet each time you renew your prescription, just in case anything has changed. Remember, this leaflet does not take the place of careful discussions with your doctor. You and your doctor should discuss PROSCAR when you start taking your medication and at regular checkups.

What is BPH?
BPH is an enlargement of the prostate gland. After age 50, most men develop enlarged prostates. The prostate is located below the bladder. As the prostate enlarges, it may slowly restrict the flow of urine. This can lead to symptoms such as:

- a weak or interrupted urinary stream
- a feeling that you cannot empty your bladder completely
- a feeling of delay or hesitation when you start to urinate
- a need to urinate often, especially at night
- a feeling that you must urinate right away.

Treatment options for BPH
There are three main treatment options for BPH:

- **Program of monitoring or "Watchful Waiting".** If a man has an enlarged prostate gland and no symptoms or if his symptoms do not bother him, he and his doctor may decide on a program of monitoring which would include regular checkups, instead of medication or surgery.
- **Medication.** Your doctor may prescribe PROSCAR for BPH. See **"What PROSCAR does"** below.
- **Surgery.** Some patients may need surgery. Your doctor can describe several different surgical procedures for BPH. Which procedure is best depends on your symptoms and medical condition.

What PROSCAR does
PROSCAR lowers levels of a key hormone called DHT (dihydrotestosterone), which is a major cause of prostate growth. Lowering DHT leads to shrinkage of the enlarged prostate gland in most men. This can lead to gradual improvement in urine flow and symptoms over the next several months. However, since each case of BPH is different, you should know that:

- Even though the prostate shrinks, you may NOT see an improvement in urine flow or symptoms.
- You may need to take PROSCAR for six (6) months or more to see whether it helps you.
- Even though you take PROSCAR and it may help you, it is not known whether PROSCAR reduces the need for surgery

What you need to know while taking PROSCAR
- **You must see your doctor regularly.** While taking PROSCAR, you must have regular checkups. Follow your doctor's advice about when to have these checkups.
- **About side effects.** Like all prescription drugs, PROSCAR may cause side effects. Side effects due to PROSCAR may include impotence (or inability to have an erection) and less desire for sex. Each of these side effects occurred in less than 4% of patients in clinical studies. In some cases side effects went away while the patient continued to take PROSCAR.

Some men taking PROSCAR® (Finasteride) may have a decrease in the amount of semen released during sex. This decrease does not appear to interfere with normal sexual function. Rarely, some men have reported breast swelling and/or tenderness or allergic reactions such as lip swelling and rash.

You should discuss side effects with your doctor before taking PROSCAR and anytime you think you are having a side effect.

- **Checking for prostate cancer.** Your doctor has prescribed PROSCAR for symptomatic BPH and not for cancer—but a man can have BPH and prostate cancer at the same time. Doctors usually recommend that men be checked for prostate cancer once a year when they turn 50 (or 40 if a family member has had prostate cancer). These checks should continue while you take PROSCAR. PROSCAR is not a treatment for prostate cancer.
- **About prostate specific antigen (PSA).** Your doctor may have done a blood test called PSA. PROSCAR can alter PSA values. For more information, talk to your doctor.
- **A warning about PROSCAR and pregnancy.**

  PROSCAR is for use by MEN only.

  PROSCAR is generally well tolerated in men. However, women who are pregnant, or women who could become pregnant, should avoid the active ingredient in PROSCAR.

  If the active ingredient is absorbed by a woman who is pregnant with a male baby, it may cause the male baby to be born with abnormalities of the sex organs. Therefore, any woman who is pregnant or who could become pregnant must not come into direct contact with the active ingredient in PROSCAR.

Two of the ways in which a woman might absorb the active ingredient in PROSCAR are:

Sexual contact. Your semen may contain a small amount of the active ingredient of the drug. If your partner is pregnant, or if you and your partner decide to have a baby, you must stop taking PROSCAR and talk to your doctor. If your partner could become pregnant, proper use of a condom can reduce the risk of exposing her to your semen (discuss this further with your doctor).

Handling broken tablets. Women who are pregnant or who could become pregnant must not handle broken tablets of PROSCAR. PROSCAR tablets are coated to prevent contact with the active ingredient during normal handling. If this coating is broken, the tablets should not be handled by women who are pregnant or who could become pregnant.

If a woman who is pregnant comes into contact with the active ingredient in PROSCAR, a doctor should be consulted.

Remember, these warnings apply only if the woman exposed to PROSCAR is pregnant or could become pregnant.

How to take PROSCAR
Follow your doctor's advice about how to take PROSCAR. You must take it every day. You may take it with or between meals. To avoid forgetting to take PROSCAR, it may be helpful to take it the same time every day.

Do not share PROSCAR with anyone else; it was prescribed only for you.

Keep PROSCAR and all medicines out of the reach of children.

FOR MORE INFORMATION ABOUT PROSCAR® AND BPH, TALK WITH YOUR DOCTOR. IN ADDITION, TALK TO YOUR PHARMACIST OR OTHER HEALTH CARE PROVIDER

MERCK

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Hydrogenated fats are unsaturated fats that have been hardened with hydrogen molecules. Hydrogenation turns corn oil, for example, into tub or stick margarine that is suitable for cooking. Unfortunately it also turns the unsaturated fats into saturated fats and creates trans fatty acids that act like saturated fats – and may raise cholesterol levels.

So which is better: butter, with its high saturated fat content, or margarine, with its trans fatty acids? Butter contains 7 grams of saturated fat per tablespoon compared with

Keep your saturated fat intake to less than 10 percent of your total daily calories. A simple way to do this is to limit saturated fats to no more than 20 grams a day.

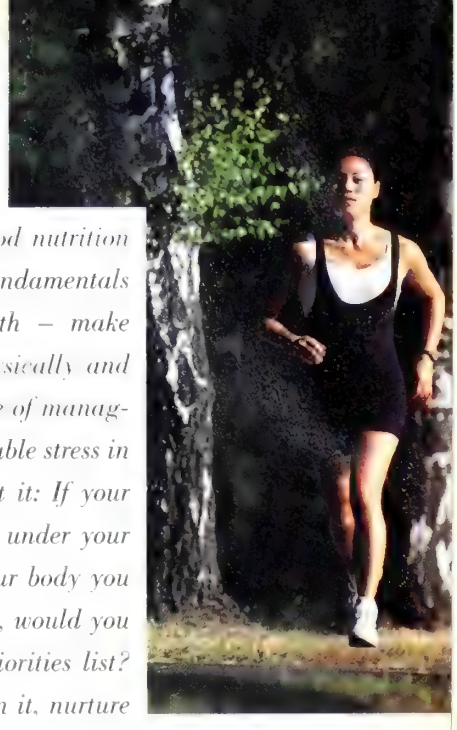
the 1 or 2 grams in most margarines. However, the trans fatty acids in margarines aren't yet reflected on food labels and their effect remains difficult to measure.

So limit your intake of both. Instead of the more hydrogenated stick margarines, use the soft tub margarines with "liquid" and "partially hydrogenated" corn or safflower oils listed in the first two ingredients. Then use more olive oil or canola oil for sautéing, and experiment with some of the new no-fat products as well.

10 TIPS
FOR STAYING ON TRACK

1. Exercise first thing in the morning. This prevents a crowded calendar from interfering with your workout, and you only have to shower and get ready for the day once. But not everyone is suited for this. (If you have a heart problem or are at risk for one, check with your doctor first.)
2. Buddy up. You can have more fun, and maybe even squeeze in an important conversation you couldn't otherwise manage.
3. Bait 'n' switch. Do only a little exercise as an incentive to get moving. Then, once you are up and out, you may decide to go ahead with a regular workout.
4. Quick change. To make it easier to convince yourself to exercise, change into your workout clothes as soon as you get home from work.
5. Compete with yourself. Try to run farther today than yesterday, for example, or in less time.
6. Log in. Keep a diary of daily exercise to track your progress and to reinforce your efforts.
7. Distract yourself. If you're on an exercise machine, watch television. If you're running, listen to the radio.
8. Keep it interesting. You may, for instance, walk on Monday, swim laps on Wednesday, lift weights on Tuesday and Saturday. Also, vary your workouts by changing the duration or intensity.
9. Celebrate. Reward yourself for sustaining your exercise program. If you exercise, you earn permission for a treat.
10. Be realistic. Don't expect to be ready for a marathon after two days of walking.

INVEST IN YOUR HEALTH



Exercise and good nutrition – the fundamentals of health – make you physically and mentally more capable of managing the not inconsiderable stress in your life. Think about it: If your body were a company under your direction, and like your body you hoped to see it mature, would you put it last on your priorities list? Or would you invest in it, nurture it, take its pulse and track it well – knowing that the return on your investment will compound itself over time?

Unless you're willing to bury your most important asset, manage your health like you manage your work: Put exercise and good nutrition at the top of your daily to-do list.

WEIGHT CONTROL
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Do you know the reasons for your weight problem? The reasons unique to you, and you alone?

Since 1977, our long-term success rate has been the best in the nation. Learn this intelligent, proven way to permanent weight control and a confident life. Stay in your own comfortable furnished apartment on our beautiful grounds, medical supervision, indoor and outdoor pools, fully-equipped gym, walking trail, massage, and served dining.

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Global Fitness Adventures
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Rejuvenating! Fun! Daily 5-15 mi. hikes; toning, massage; healthy food by private chef; upscale accomms. Trips 7-15 days.

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Miles of pristine beach. Quiet, clean hotels and condos. Fishing and golf. Best rates.

If He Can Find The Time, So Can You.

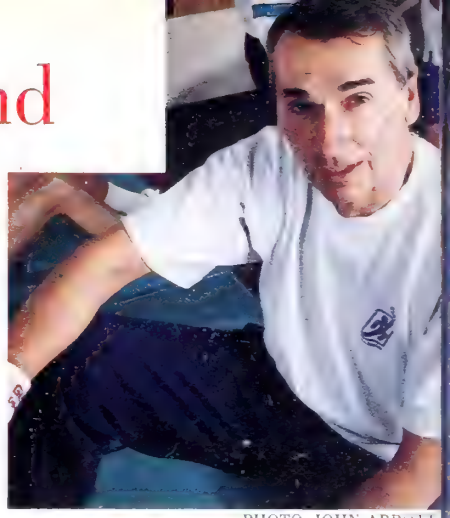

PHOTO: JOHN ABBOTT

Name: William C. Steere, Jr.
Age: 58
Title: Chairman of the Board and Chief Executive Officer
Company: Pfizer Inc., a healthcare company headquartered in NYC
1994 Net Sales: $8.3 billion
Employees: 40,000 worldwide
Exercise regimen: Aerobic: Stairclimbing machine, stationary bike. Strengthening: weight machines, free weights.
Frequency: 1 to 4 times weekly, 1-hour sessions.
Weekend sports: Skiing, squash.
Exercise philosophy: "I like being fit."
Exercise advice: "Make it convenient."

As head of a global corporation in an industry that is profoundly repositioning itself, Bill Steere is no stranger to stress. Yet he hardly personifies the harried executive. In the middle of the day, up to four times a week, he heads downstairs to Pfizer's corporate fitness facility and puts in an hour or so on the exercise equipment.

"Lots of times when you're under stress it's hard to focus on getting exercise," says Steere, who began his career at Pfizer as a new college graduate in 1959. "But I always feel better when I do."

Four years ago, Steere saw to the installation of the $3 million on-site fitness facility. Previously, employees could take advantage of corporate sponsored programs at local fitness centers, but after signing up, they often dropped out. "People wouldn't go because of the struggle to get out and back during the day," says Steere. "I think the more convenient you can make it, the more people will exercise."

Besides the facility itself, Pfizer provides employees gym clothes and lockers, pre-exercise screening to identify potential health problems, and trainers to help design a fitness program and consult with exercisers. Employees have responded positively and usage rates are high.

Steere sees the employee program as simply consistent with Pfizer's public commitment to wellness. "New York City is a difficult place to work," he says. "It's a good benefit to have in the building."

Text was written by the editors of The Physician and Sportsmedicine, a McGraw-Hill clinical journal exploring the medical aspects of exercise, sports and fitness. For subscription information to The Physician and Sportsmedicine, please write: Magazine Services, The Physician and Sportsmedicine, 4530 W. 77th St., Minneapolis, MN 55435.

Health Track will continue in September with "Winter Won't Wait", a special advertising section focusing on exercise during winter.

HEALTH TRACK

The world gets impatient with me.
It says, "Grow old gracefully, Hale."
It says, "Come on, three Opens is enough–
let a young guy in."
And every June, when I step up to that first tee,
it asks, "Is this the year that you take it easy, Hale?
How old are you anyway?"
And I answer, "I don't know. I don't count birthdays.
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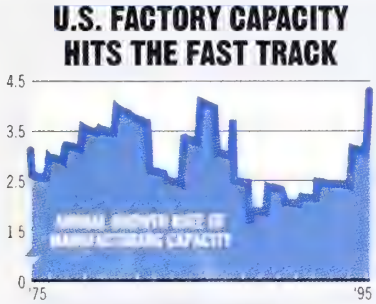
BY GENE KORETZ

INDUSTRY FINDS ROOM TO GROW

Spending on plant boosts capacity

It was a long time coming, but America's capital spending binge is finally starting to pay off big in terms of rapid growth of productive capacity. According to the Federal Reserve, manufacturing capacity is currently expanding at a 4.3% annual rate—the fastest pace recorded since the late 1960s. The latest reading marks a sea change from the Fed's previous estimates of capacity growth, which clocked in at 3% last year and averaged only about 2% a year from 1987 through 1993.

The pickup is no surprise to Bruce Steinberg of Merrill Lynch & Co., who has long argued that the Federal Reserve has been lowballing capacity growth and overestimating operating rates because it has failed to appreciate the full impact of technology investment on productive capability. "The Fed is finally recognizing that capacity expansion is on a fast track," he says.



The acceleration in capacity growth is underscored by the added investment dollars that began flowing into physical plant last year. The F.W. Dodge Div. of McGraw-Hill Inc. reports that industrial-building startups in 1994 were up 23% in square footage and 20% in dollars, and square footage this year is running 50% over year-earlier levels. The big spenders on plant include producers of metals, paper, chemicals, and capital goods—"a broad range of industries," says a spokesman.

The upshot should be a relatively benign inflation outlook. With more new capacity coming onstream this year, and slowing industrial production, Merrill Lynch's Steinberg expects bottlenecks to dissipate, price pressures to abate, and factory operating rates to edge lower. "If manufacturing capacity maintains a 4%-plus annual growth rate," he adds, "it may even be possible for the economy itself to grow faster than 2½% a year without generating higher inflation."

PITTING GRANDPA AGAINST JUNIOR?

Sorry, kid, you lose the funding war

It's an intriguing and disturbing question: Is there a relationship between the aging of the population and the current push to cut federal aid for education, school lunches, and the like, while keeping Social Security sacrosanct?

According to a recent analysis of survey data by Maris A. Vinovskis of the University of Michigan's Institute for Social Research, support for increased federal funding for public schools declines with age. While 77% of those under 30 favor such outlays, older Americans, particularly those over 50, are less supportive, and by age 70, support drops to only 47%.

Similarly, when Massachusetts Mutual Life Insurance Co. recently asked 1,000 adults what they would do if they had to choose between paying for their child's college education or the care of an elderly parent, it found they chose their parents over their kids by more than 2 to 1. Support for senior citizens was particularly strong among people in their 40s and 50s—those both closest to retirement and most likely to have a needy, aging parent themselves.

Within two decades, almost all of the baby boomers will have entered their 50s and 60s. In the battle over shrinking public funds, a salient fact may be that children don't vote, but adults do—and with increasing regularity as they age.

PREJUDICE: STILL ON THE MENU

Sex bias in restaurant hiring

Whatever the defects of affirmative-action programs, several "real life" experiments indicate that discrimination is still a disturbing reality in the workplace. In a new National Bureau of Economic Research study by David B. Neumark, Roy J. Bank, and Kyle D. Van Nort, comparably matched pairs of men and women sent job résumés to 65 restaurants in Philadelphia. In high-priced eateries (which offered high earnings prospects), men were more than twice as likely as women to receive an interview and five times as likely to be offered a job.

In a similar study a few years ago, the Urban Institute sent carefully matched pairs of black and white male college students with equal qualifications to answer job advertisements in Chicago and Washington. It found that instances of discrimination against blacks outweighed instances of "reverse discrimination" against whites by 3 to 1.

AFRAID OF THE BIG BAD YEN

It's bedeviling some Asian debtors

Although Asia's emerging economies have largely escaped the harmful effects of the Mexican currency crisis, economist Joseph P. Quinlan of Dean Witter Reynolds Inc. notes that several will be hurt by the soaring yen. "The yen's strength," he says, "is bad news for those nations that trade in dollars but borrow in yen."

Those at risk include China, Thailand, the Philippines, Indonesia, and Malaysia (chart). Particularly vulnerable is Indonesia, with 40% of its huge $88 billion foreign debt denominated in yen, and 90% of its export revenues denominated in dollars. None of these seems likely to suffer a Mexican-style debt crisis. However, several countries have already asked Japan for softer lending terms, and it may be forced to provide some debt relief if the yen continues to rise.

Meanwhile, at least one nation—South Korea—is benefiting from the soaring yen. With the Korean won down 25% against the yen since 1993, Korean cars, semiconductors, steel, and chemicals are winning market share from Japan in many Third World nations. As a result, exports are projected to rise $2.5 billion this year—eclipsing a $1.3 billion increase in imports fueled by higher prices for parts and components imported from Japan.

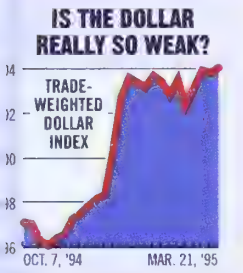
Y JAMES C. COOPER & KATHLEEN MADIGAN

)ON'T SWEAT 'THE DOLLAR'S SWOON

U.S. ECONOMY

Here's an astounding fact: Last year, the U.S. required a ·cord $315 billion in fresh foreign capital to balance its ternational accounts. That's in addition to the new nds needed for domestic uses, especially the $203 llion used to finance last year's federal budget deficit. nd people wonder why the dollar is weak.

But does the dollar's recent swoon matter much to ıe economic outlook? The short answer is: Not really. he inflationary implications will be small, as will the ef- ct on overall trade flows. And the dollar will not ay a big role in determining where the Federal Re- ·rve will set interest rates. It never has.



▲INDEX: FEB. 1, 1994=100, OECD EXCEPT TURKEY, ICELAND, AND AUSTRIA
DATA: FIRST CHICAGO CAPITAL MARKETS INC.

What about all that foreign capital? It will continue to flow in as we need it. As bad as America's debt problems are, the U.S. is nowhere near the combination of fiscal irresponsibility, rampant inflation, and deficient competitiveness that would cause foreign investors to lose confidence in dollar-denominated assets. In fact, on all three of those)unts, the outlook is improving.

The dollar's long-term decline against some major ırrencies has occurred partly because of our heavy ebt levels. But the greenback's recent tumble vs. the ıark and the yen goes beyond reason. Based on the ollar's relative purchasing power, economists at RI/McGraw-Hill Inc. estimate that the dollar should ·ade closer to 1.9 marks instead of 1.4, and at least 12 yen rather than 90. Of course, currency traders ırely listen to economists.

UT EVEN INCLUDING the plunge relative to the ıark and yen, the greenback shows no weakness when)mpared with a trade-weighted basket of currencies ·hart). Take the index compiled by First Chicago Cap- al Markets Inc. It covers 21 countries in the Organiza- on for Economic Cooperation & Development. On Iar. 21, it stood 6.4% higher than on Dec. 1.

That index shows how the dollar's strength relative) the Canadian dollar and the Mexican peso has offset s weakness vs. the mark and the yen. Moreover, the ıdex of the Federal Reserve Bank of Dallas, which ses 99 countries and adjusts for each nation's inflation ate, tells much the same tale. This broader, more sta- le view of the dollar is the reason why its recent gy- rations will have little impact on either growth via exports or inflation via higher import prices.

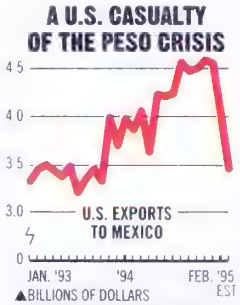
The biggest impact on U.S. exports this year will come from the collapse of the Mexican economy. The hit is coming faster and sharper than anticipated. Seasonally-adjusted exports headed south of the border fell $0.5 billion in January. And based on Mexican data, they fell at least $0.5 billion in February (chart).

In February, Mexican imports—about two-thirds of which come from the U.S.—plunged 26% from December, when the peso crisis exploded. Already, Mexico's trade balance has swung from deficit to surplus in February for the first time in seven years. And with a severe austerity plan in place, Mexico will cut its purchases of U.S. goods even more throughout the year.

THE DROP in exports to Mexico was partly to blame for the deterioration in the U.S. trade deficit in January. The gap for goods and services widened to $12.2 billion, far above expectations, after narrowing to $7.3 billion in December. For goods alone, the deficit hit $17.2 billion, the highest ever. The overall January gap implies a wider deficit this quarter compared with the fourth quarter, causing a drag on economic growth.

Exports dropped a steep 4.6%, to $60.7 billion, while imports hit another record, rising 2.9%, to $72.9 billion. Imports of capital goods were up, a sign of strong U.S. capital spending, and consumer goods also rose, suggesting that retailers are betting that the recent slowdown in consumer spending is only temporary.

After the trade data's release, the dollar weakened slightly vs. the mark, and even though the U.S. trade deficit with Japan narrowed, the greenback also fell against the yen.



▲BILLIONS OF DOLLARS
DATA: COMMERCE DEPT., BUSINESS WEEK

But it's not just the trade deficit that worries the currency markets. The gap is set to improve in 1995, as imports slow in response to cooler domestic demand. But at the same time, the overall current-account deficit, which hit $155.7 billion in 1994, may continue to widen. That's why traders are selling dollars.

The current account is composed of the trade balance, net investment income, and certain government transfers. Last year, for the first time on record, the U.S. paid out more investment income to foreigners

ERIK HOFFMANN/BW.

than it earned, reflecting the soaring cost of financing the U.S.'s huge stack of IOUs.

Much of the interest we shipped abroad in 1994 went to cover government debt. But even on that score, the outlook is improving. The Treasury said the federal deficit in March was $38 billion, bringing the gap for the first five months of the fiscal year to $94.1 billion. That's 20% below the same period last year.

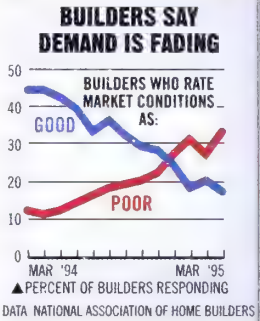
Although delays in tax refunds may be boosting receipts, the fiscal 1995 deficit could come in below the Congressional Budget Office's projection of $176 billion. Moreover, the Senate appears to be placing first priority on spending cuts rather than tax cuts.

ONE THING dollar bears need not fret over is U.S. inflation. Rising inflation weakens a currency because it erodes the currency's buying power. But right now, the price indexes remain tame, and slower economic growth will hold future price pressures at bay.

The consumer price index rose 0.3% in February, as did the core CPI, which excludes energy and food. Annual consumer inflation stood at 2.9% in the month, with the core rate at 3%. February producer prices for finished goods are also benign, though inflation at the earlier stages of processing is on the rise.

However, some of those pressures are easing. Nucor Corp., the world's largest minimill steelmaker, has cut its steel prices, suggesting that the previously announced hikes are not sticking, and commodity prices for metals generally are falling.

The inflation outlook is further enhanced by continued signs that the economy is cooling off. In particular, the housing and auto sectors are sagging. Housing starts dropped 2.6% in February, after a steep 12% decline in January. Builders already have a load of unsold homes, and a March survey shows that buying conditions continue to deteriorate (chart).



Weaker car and truck sales and rising dealer inventories have caused Detroit to slash its spring-quarter production plans. *Ward's Automotive Reports* says that in February, dealers held a 76-day supply of cars and trucks at current sales rates, well above the more desirable 60-day supply.

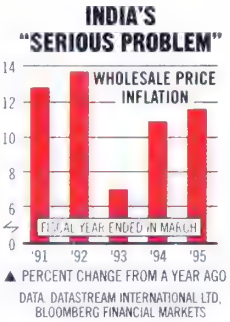
As evidence of slower growth and low inflation mounts, the Fed has no domestic reason to hike rates. That means raising rates in support of the dollar would be counterproductive to the Fed's soft-landing goal. If the Fed were to take such a risk, it would be time to worry that the dollar's weakness reflects a serious breakdown in our economic fundamentals. But for now, if the Fed isn't concerned, you shouldn't be either.

INDIA

FRESH FUEL FOR INDIAN INFLATION

Rattled by recent defeats at the ballot box, India's ruling Congress Party has put forth a budget heavy on populist spending, along with some continued economic reform and inflation-fighting measures.

The highlights of India's budget for fiscal 1995-96, which begins Apr. 1, include a five-year tax holiday on income from infrastructure spending, cuts in import duties for goods ranging from plastics to computers, and increased spending on such welfare programs as subsidized pensions and housing.



India's business community had hoped Prime Minister P. V. Narasimha Rao's government would scrap the 15% tax surcharge on corporate earnings. Instead, the budget left corporate-tax rates unchanged and cut government capital outlays. So, after the budget was released on Mar. 15, the Bombay Stock Exchange fell 88 points, or 2.5%. Then on Mar. 20, the stock market was closed when a brokerage firm defaulted.

Despite the budget letdown, India's industrial sector has benefited from the market reforms started in 1991. On Mar. 14, Finance Minister Manmohan Singh said that industrial output grew 8% in the year ending in March. In the same period, real gross domestic product rose 5.3%, its strongest pace in four years, and the government's deficit as a percentage of gross domestic product fell to 6.7% from 7.3%.

The economy is expected to rise by about 6% this year, but rapid growth has stirred up price pressures. Faster money-supply growth and more expensive raw materials have increased the inflation rate. Wholesale prices—India's key inflation gauge—are rising 11.5% this fiscal year, up from 10.8% a year ago (chart). Singh called inflation "a serious problem." That means India may have to raise interest rates soon.

The cuts in excise taxes should help hold down price pressures from imported goods. But if the Congress Party feels the need to initiate more welfare spending to appease poor voters, the resulting fiscal pressures could force inflation to stay above 11% this year.

BE PREPARED. IT WAS GOOD ADVICE when you were a scout. If you ask city officials in San Francisco, it still is.

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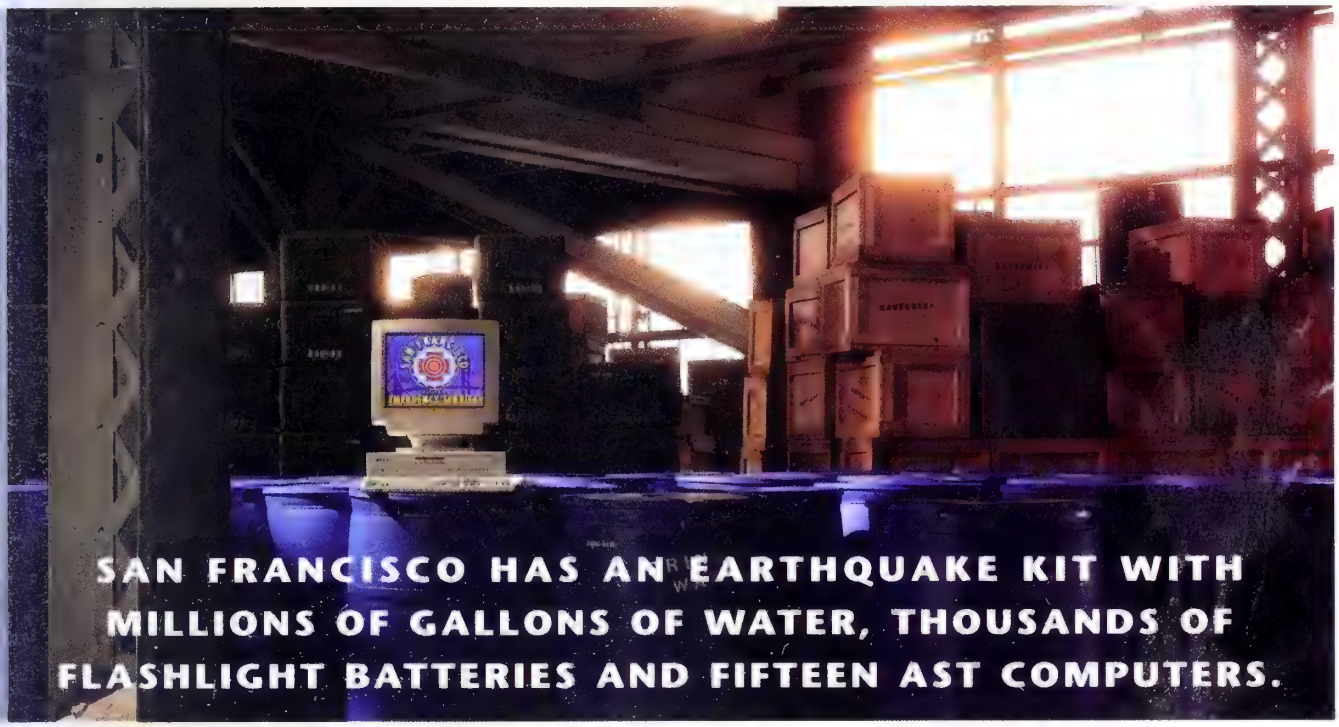

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DEALS

'BARBARIANS' REVISITED

KKR's buyout of RJR Nabisco was a major fizzle –for investors

In 1988, when leveraged buyout artists Kohlberg Kravis Roberts & Co. began their historic takeover battle for RJR Nabisco Inc., the specter of the "barbarians at the gate" seizing control of one of the country's preeminent companies made celebrities out of Henry R. Kravis and George R. Roberts and spawned a best-selling book. Valued at some $25 billion, it remains the largest LBO ever.

On Mar. 20, when Goldman, Sachs & Co. succeeded in quietly selling the last of KKR's shares in the company, the reaction was considerably more muted. RJR Nabisco Chief Executive Charles M. Harper, in a just-issued annual report, trumpeted the end of "the leveraged buyout era at RJR Nabisco," but the company says it did nothing special to mark the occasion. And over at KKR, "there was no commemoration" of the two companies' parting, says a spokeswoman.

No wonder. In pure investment terms, the RJR Nabisco takeover was a sort of Waterloo for KKR. The buyout firm acquired RJR Nabisco at $5.62 a share on an adjusted-cost basis; it unloaded its final 8% stake for only about $5.73 a share. The bulk of KKR's stake likely sold for around the same price. Even KKR doesn't claim investors made money on the deal—though the KKR spokeswoman notes that KKR "did preserve their investors' equity."

Cold solace for the investors who bought into the 1987 buyout fund that KKR used to acquire RJR Nabisco. "It's too bad they devoted a lot of time, energy, and our dollars to an investment that has done so poorly," says Chuck Hunter, investment research manager of the Montana Board of Investments. "We're not exactly enthralled."

"SWEET DEAL." Of course, the $126 million the KKR partners themselves invested in RJR Nabisco didn't appreciate in value, either. Take into account the nearly $500 million in transaction, advisory, and other fees it charged, though, and KKR's return on the RJR Nabisco deal looks far better. It reaped a $75 million transaction fee from RJR Nabisco on the original deal and an additional $60 million over the years for advising the company. Then there were the $2.3 million in directors' fees the KKR partners, who served on the RJR Nabisco board from 1989 through 1994, pocketed personally.

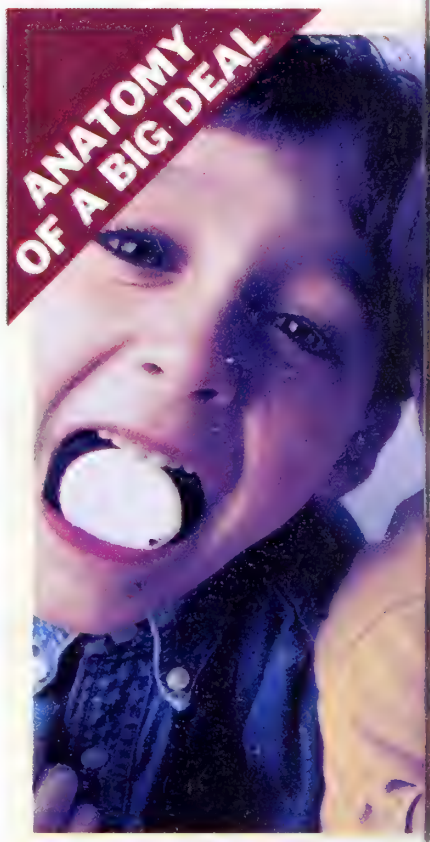
But the biggest chunk of the money stems from a 1.5% annual management fee KKR assessed on the 1987 LBO fund until 1992, when the last of the fund's money was invested. The portion of this fee associated with the RJR Nabisco deal alone added a further $279 million to KKR's coffers. KKR "had such a sweet deal," says Harvard business school investment banking professor Samuel L. Hayes. "Investors [in its buyout fund] got the short end of the stick." And those investors can't pull out of the fund: Under terms of their deal, KKR gets to control most of their money until at least the end of the decade.

To be sure, KKR has a plan for recovering from the RJR Nabisco imbroglio. It has transferred its investors' money into Borden Inc.—and is hoping its buyout fund will reap a huge payoff from turning the troubled food company

TOTING UP THE TAKEOVER

INVESTORS FARED BADLY The KKR fund put $3.1 billion into RJR Nabisco at $5.62 a share on a cost-adjusted basis. Six years later, the last of the fund's shares were sold for about $5.73 each. Shareholders also got $40 million of KKR's fee for the Borden acquisition.

...BUT KKR EARNED HUGE FEES The partners' own investment of $126 million didn't appreciate. But the firm earned nearly $500 million in transaction and other fees. That includes a 1.5% management fee that came to $279 million over five years.



The tortured history of the 1980s' most infamous LBO

NOVEMBER, 1 With Henry Kra intent on winni the biggest tak over battle ever KKR buys RJR bisco for $25 b lion, considerat more than wha company had b valued at a few weeks earlier. All but $1.4 billion o purchase is financed with debt.

1990 To shore up Nabisco's finances, has to inject $1.7 in equity into the any.

L, 1991 KKR sells of RJR Nabisco's to the public for billion, or $11.25 e in new stock.

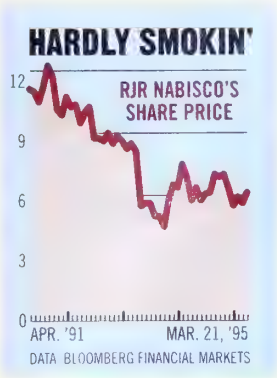
APRIL, 1993 On Apr. 2, "Marlboro Friday," Philip Morris slashes the price of cigarettes because of stiff competition from low-cost brands, throwing all tobacco stocks into a tailspin. RJR Nabisco's stock drops 25%, to about $6. To help, ex-ConAgra Chief Executive Charles Harper is tapped in May as RJR Nabisco's new CEO.

SEPTEMBER, 1994 KKR offers to buy Borden with $2 billion in RJR Nabisco stock, collecting a $50 million fee for itself. KKR still owns 17.5% of RJR Nabisco.

JANUARY, 1995 RJR Nabisco successfully spins off 19.5% of its Nabisco food unit as a separate stock. KKR taps former Duracell CEO C. Robert Kidder to run Borden.

FEBRUARY, 1995 KKR injects more RJR Nabisco shares into Borden to shore up that company's troubled balance sheet. KKR now owns 8% of RJR Nabisco.

MARCH, 1995 KKR unloads the last of its RJR Nabisco shares for about $5.73 a share, vs. the average of $5.62 a share it paid for the company.



round. In a deal first announced in eptember and made final in March, KR took Borden private. As part of e deal, KKR transferred its RJR Naisco shares to cash-starved Borden, hich sold them and used the proceeds pay down debt and strengthen its alance sheet. C. Robert Kidder, forerly CEO of Duracell International Inc., e of KKR's most successful companies, as tapped to head Borden.

KKR maintains that investors in its 987 fund haven't fared poorly. That's because other KKR acquisitions, including Duracell, Stop & Shop Cos., and Fleet Financial Group, have performed better than RJR Nabisco. For one, Duracell's shares have more than doubled, to $44, since it went public in May, 1991.

All told, estimates James Parker, executive director of the Washington State Investment Board, the 1987 fund returned 12.2% compounded annually as of Sept. 30, the most recent accounting available—vs. a 9.7% compounded annual return for the Standard & Poor's 500-stock index during the period. But the fund's return has likely dropped since last fall: RJR Nabisco shares were trading at 6¾ on Sept. 30 and fell as low as 5¾ over the winter, as KKR's shares were sold to fund the Borden buyout. Given the high risk, "that's not what we were expecting," says Parker.

KKR's big challenge now is to make Borden pay off. "The Borden acquisition represents a unique and creative solution to a difficult investment that didn't live up to our original expectations," says KKR partner Paul E. Raether. Indeed, KKR paid less than $2 billion for the Columbus (Ohio) company, which is home to such well-known brands as Cracker Jack and Creamette pasta. Less than four years ago, Borden had a market value of nearly $6 billion. But there were no other takers when Borden put itself up for sale more than a year ago. And even with better management and lower debt, Borden will be hard to get back on track, analysts think. Kidder, who has no previous food industry experience, declined to be interviewed.

WORTH IT? The bigger heartache for KKR may be that it sold out of RJR Nabisco too soon. Under KKR's whip, it has shed more than 46,000 employees since 1988 and sold off $6.2 billion worth of businesses. Even so, its return on equity fell from 24% to 16% from 1988 through 1994—largely because of price wars in the tobacco industry. Meanwhile, RJR Nabisco's market value fell from $25 billion in 1988 to $21.1 billion now. Given all that, KKR argues its investors will make more from a Borden turnaround than they would have from RJR Nabisco.

But that may be a heck of a target to beat: Harper, who had a stellar record as CEO of food giant ConAgra, has set a goal for RJR Nabisco to earn a 20% return on invested capital. And Harper isn't alone in thinking the company's fortunes are on the upswing. It succeeded in selling 19.5% of its Nabisco foods business to the public as a separate stock in January, and most investors anticipate that Nabisco will be completely spun off at the end of 1996. Sanford C. Bernstein & Co. analyst Gary Black contends that in a few years, investors will see that "KKR bought at the high and sold at the low." Even Hunter is accumulating RJR Nabisco shares for Montana's investment board.

In the end, a single question remains: Given the thousands of layoffs, the financial machinations involved, and the sheer egotism, was the signal takeover of the rip-roaring '80s worth all the fuss? The answer: Only if you're a KKR partner.

By Elizabeth Lesly in New York

POLITICS

TELECOM REFORM: THE CALL MAY FINALLY GO THROUGH

With Bob Dole pushing, deregulation stands a real chance

Five times in the past decade, major rewrites of the nation's 60-year-old communications law have bit the dust in the waning days of Congress, victims of warfare between long-distance companies and the Baby Bells. So why should this year be any different? The answer lies in two words: Presidential ambition.

Senate Majority Leader Bob Dole (R-Kan.), front-runner for the GOP nomination in 1996, is eager to show that he has the stuff that national leaders are made of. In the wake of the embarrassing defeat of the balanced budget amendment, he needs to shepherd a major bill to passage, preferably taking the lead on an issue that hasn't already been claimed by House Speaker Newt Gingrich (R-Ga.) and his Contract With America. A victory on telecom reform "would permit him to look like a seasoned leader who can put together sound, reasonable policies on a complex issue," says a business lobbyist. So, even though Dole's objections last autumn stopped 1994's telecom bill dead in its tracks, this year he is showing a remarkable willingness to compromise.

The resulting law would have a profound impact on the $1 trillion industry, setting the stage for a competitive free-for-all in everything from TV to local and long-distance phone service. Under the GOP plan scheduled for a Senate Commerce Committee vote on Mar. 23, the Baby Bells could offer long-distance service; long-distance carriers could go local. Local carriers also could offer cable-TV service, while cable companies could provide local phone service. TV broadcasters could offer photograph-quality pictures, more channels, and new communications services such as paging.

But major legislative victories do not happen without some give and take. This time around, Dole is giving. Long known as a stalwart protector of the Baby Bells, he is pushing a Republican plan that is more favorable to the long-distance carriers than past measures he has backed. It requires local carriers to establish conditions that would allow competition in their markets before they can offer long-distance services, rather than allowing the Bells to enter deregulated markets on a fixed date.

Dole is working for new rules while keeping one eye on New Hampshire

One reason for the change might be found in New Hampshire, host to the nation's first Presidential primary. AT&T, the Bells' archrival on Capitol Hill and a vocal opponent of the fixed-date provision, is one of the largest employers of Granite State residents. But Dole might also recognize that he'll never get a bill through the Senate unless he abandons the concept, much opposed by Democrats, of a "date certain" for opening markets. "Dole is accepting political realities," says Timothy J. Regan, director of government affairs for Corning Inc. "There is a very fundamental change this year in the Republicans moving away from date certain."

BELOW RADAR. Dole also may back away from his insistence that a popular 1992 law regulating cable TV be repealed. Democrats threaten to torpedo the entire bill unless some cable consumer protections are retained. The cable industry is willing to go along so it can get into the local-calling business. "We're trying to fly below the political radar screen on this one if we can," says a cable lobbyist.

The pressure for a coherent national policy has been heightened by piecemeal judicial decisions allowing local phone carriers into new businesses. On Mar. 17, a federal judge made it easier for Bell Atlantic Corp. to offer video services in the Mid-Atlantic region. Such decisions irk potential rivals, who fear they will be at a disadvantage. "This is a fight that should be umpired by the legislative branch, not the judicial branch," says John C. Tuck, a long-distance lobbyist.

The telecom industry still isn't united on the sort of bill that should emerge. Long-distance companies and the Baby Bells continue to haggle over issues. And rural Bells such as BellSouth Corp., which have high business rates and thus would be most vulnerable to competition, could break ranks if they aren't satisfied. But their own desire to win regulatory relief is drawing the Bells together. "We're getting along better now than we were in the final months of the last Congress,"

says Thomas J. Tauke, head of government affairs for Nynex Corp.

Likewise, legislative differences seem resolvable. Democrats and Republicans bicker over whether foreign companies should be allowed big stakes in U.S. communications concerns, and Democrats want guarantees that interactive services will be available to schools and libraries. But Dole's strategic retreats have removed some of the biggest hurdles. By dropping the date-certain demand, Dole "makes it easier for Republicans to peel off Democratic votes than for Democrats to peel off Republican votes," says Andrew D. Lipman, a Washington communications lawyer.

The House is expected to adopt the Senate's approach when it comes out with its bill shortly. The White House, meanwhile, is taking a low-key approach. "The easiest way to get a bill is to look like we're not getting the credit," says one White House adviser. That leaves the door wide open for Bob Dole to grab the spotlight—and boast of his success when he hits the campaign trail.

By Mark Lewyn in Washington, with Catherine Arnst in New York and bureau reports

DEALS

HOLLYWOOD'S DIGITAL GODZILLA

Spielberg/Katzenberg/Geffen get interactive with Bill Gates

Ever wonder how many gigantic egos can fit in one room? After adding a couple of meganames to its roster of partners, DreamWorks SKG, the nascent movie studio formed by Steven Spielberg, Jeffrey Katzenberg, and David Geffen may be the test case. First, on Mar. 19, Microsoft Corp. co-founder Paul G. Allen said he will invest $500 million in the outfit. Then, three days later, Microsoft CEO William H. Gates III announced that his company will form a new electronic-entertainment joint venture with DreamWorks—tentatively dubbed DreamWorks Interactive.

Big names—and egos—to be sure. But the new Microsoft-DreamWorks tie-up has a solid business purpose: to link Microsoft's technology with the best Hollywood creative talent the Dream Team can attract. The focus will be on developing interactive entertainment, primarily adventure-based games and children's stories. And it will be designed to exploit any device the next decade produces, from computers to video-game machines to new electronic networks to interactive television. "Whether it's online networks or interactive movies, we'll be making software for it," says Spielberg. Plus, says Gates: "Steve [Spielberg] and I will primarily be sitting down and talking to the product teams about their ideas." The venture's first products—probably computer games—should be on the market by Christmas, 1996.

FIFTY-FIFTY. Making DreamWorks Interactive work, though, will require considerable mutual trust between Microsoft and DreamWorks SKG. The new company is being set up as a 50-50 partnership, with headquarters in Hollywood and development teams there and at Microsoft's headquarters in Redmond, Wash. Each side will ante up about $15 million initially, and Microsoft is making an undisclosed equity investment in DreamWorks SKG. Each side will contribute employees to the new company. Moreover, Katzenberg says it will have access to all of Microsoft's research and development. "To have these assets from Microsoft made available to us—there's no price you can put on it," he says.

THE BILL & STEVE SHOW

DreamWorks Interactive will team Microsoft and top entertainment talent to produce adventure games and children's stories

Indeed, Microsoft should bring an impressive array of new technologies to the new venture. Dataquest Inc. figures Microsoft sold more than $180 million worth of interactive games last year, and it now owns much of the latest in digital movie-making technology. Last June, it paid $120 million to buy Softimage, a Canadian company that makes special-effects software for Hollywood. And later this year, it will launch Microsoft Network, a new online service similar to America Online Inc. that promises to be a lucrative new playground for computer-game addicts. Microsoft also is creating programming tools for game-makers and designing networks for interactive television.

Still, can these guys really work together? Big egos aside, plenty of other tensions may be inherent in the partnership. Although DreamWorks Interactive is starting out in the adventure-game category, where Microsoft has little presence so far, it eventually will compete directly with its parent. Meanwhile, rival companies, such as Rocket Science Games, Spectrum Holobyte, and Knowledge Adventure (in which Spielberg owns a minority stake), are already trying to combine Hollywood storytelling magic with programming talent.

Spielberg and Gates, at least, seem to speak the same language. After trying out some of Microsoft's latest games under development a couple of months ago, Spielberg sent a six-page memo suggesting creative changes. "I love this stuff," says Spielberg. "It's a hobby for me, like movies." Hobby, indeed: Dataquest estimates that video- and computer-game software already add up to a nearly $4 billion business. Just the kind of hobby Bill Gates would get into.

By Richard Brandt in Seattle, with Ronald Grover in Los Angeles

AP-WIDE WORLD

COMMENTARY

By Paul Magnusson

PUT THIS BUDGET SCALPEL IN THE PRESIDENT'S HANDS

In Washington, Congress is quarreling about how much to trim the infant-formula subsidy to reduce the budget deficit. But 15 miles to the east, the Naval Academy Dairy Farm faces another dilemma: What to do with the milk it produces when the midshipmen leave for their summer vacations. The farm isn't allowed to sell its blue-and-gold cartons of milk commercially, and the 150 cows don't know enough to watch the calendar.

Meanwhile, taxpayers might ask a more important question: Why must the Naval Academy operate an admittedly inefficient 865-acre dairy farm when it could buy the 812 gallons it uses each day from a wholesaler—and save 30¢ per gallon? The answers are hardly satisfying: That's the way Annapolis has done it ever since 1913, when a typhoid scare led the Navy to procure an on-the-hoof milk supply. Neighbors want to preserve the only dairy left in Maryland's rapidly developing Anne Arundel County. And most important, government is inherently wasteful.

But there is hope. Congress is debating whether to grant the President a line-item veto, a crucial provision in the Republicans' Contract With America. In its limited House-passed form, the legislation would allow the President to kill anachronisms such as the academy's dairy farm or, say, sell the nation's 32 billion-cubic-foot supply of helium, enough to last 100 years, now that the Navy has abandoned the blimp. Congress could restore these spending items only with a two-thirds majority.

ONLY THE RUTHLESS. The Senate is now considering a GOP version that could go even further in making new spending on entitlements and targeted tax breaks subject to the Presidential scalpel. "That could really start to save some money if you had a President with a strong emphasis on deficit reduction," says Martha Phillips, director of the Concord Coalition, a group advocating a balanced budget.

Skeptics note that the veto is only as powerful as the executive wielding it. And although the governors of 43 states enjoy varying versions of the device, many shy away from using it. As governor of Arkansas, Bill Clinton employed it just nine times in 10 years. "There's little reason to believe, based on the states, that it will have a significant impact," says Joseph White, a budget analyst at the Brookings Institution. "Besides, you have a big country, and you would like it to be prosperous. Spreading money around is one way to do it."

SACRED COWS A line-item veto may make mincemeat of such projects as the Naval Academy's dairy farm

But that has proved wasteful. Take the $43 million-a-year National Drug Intelligence Center (NDIC), stuck in a former department-store building in Johnstown, Pa. It's there because a then-appropriations subcommittee chairman, Representative John P. Murtha (D-Pa.), sneaked a provision into a Pentagon spending bill in 1991 that established the office in his hometown. The center's ostensible role is to help coordinate policy among the many agencies fighting the $13 billion-a-year war on drug trafficking—the Drug Enforcement Administration, the FBI, and the CIA, among others. But the NDIC is so isolated that it has to maintain a 15-person satellite headquarters in the Washington suburb of McLean, Va., near where the director of the NDIC actually lives. As one spokesperson explains: "It's a national center, and we have to interact within a Washington environment."

READY TO SLICE. Add up hundreds of such boondoggles, and they begin amounting to real money. A General Accounting Office report that focused on nonentitlement spending found that $70 billion could have been saved between 1984 and 1989 if a line-item veto had been used on programs to which the White House objected. Citizens Against Government Waste, a public advocacy group, found $10 billion in pork "hidden away" in government spending bills this year alone, including $3.8 million in "wood-utilization research." The libertarian Cato Institute estimates that as much as $10 billion a year could be saved.

Certainly, President Clinton wouldn't win many votes in Annapolis or Anne Arundel County by closing down the dairy. And the middies would have to find a new home for their mascot—a goat. Still, restoring some sanity to government budgeting might make political hay in the long run. And with the money saved on milk production, the Academy might build the goat spanking new quarters fit for an admiral.

Paul Magnusson writes about economic policy from Washington.

POWER OF DOWN-HOME CHARM: *Clinton and Arnold are fast friends*

:LECTION '96

WOULD YOU GIVE THOUSANDS OF DOLLARS TO THIS MAN?

:linton hopes the new DNC head will make people say yes

Truman Arnold does not think small. Five years ago, when folks in Texarkana, Tex., were trying to raise ıoney for disabled children, the oil tyoon offered to help. But Arnold—who arlayed a single gas station into a $400 ıillion energy empire—decided somehing splashier than a bake sale was eeded. With the help of powerful riends such as Senator David H. Pryor D-Ark.), he started a celebrity golf ournament that is now a highlight of 'exarkana's social season.

Democratic Party poobahs hope Arold, 57, can use his skills to similarly ransform the Democratic National Committee. On Mar. 14, Arnold was amed Finance Chairman of the debtidden DNC, drawing one of politics' oughest assignments: Shore up the fiances of a party that as seen them fall along vith Bill Clinton's popuarity. "I don't know vhether to be excited r nervous," Arnold ays. "Ask me when he honeymoon is over."

There's plenty to be ervous about. The DNC s $2 million in debt, nuch of it run up last ear promoting the unoved Clinton health lan. To complicate natters, the Democrats' loss of their congressional majority has made fund-raising much harder. And with the '96 elections looming, Arnold must compete for scarce dollars with scared Hill Democrats and the Clinton reelection team. "I don't know whether congratulations or condolences are in order" for Arnold, says DNC member Ed Miller of Texas, an old friend.

The White House thinks the longtime Clinton intimate can pull it off. "Truman knows how to close a deal," says White House Counselor Thomas F. "Mack" McLarty III. Still unknown, though, is whether he can pry dollars out of donors outside Texas. Admits one associate: "It will take an extra effort on his part to win over Wall Street."

Those who know Arnold believe in the power of his down-home charm. "Very few people enjoy raising money, but Truman loves people," says Pryor. "He's a totally positive thinker. And he never burns a bridge." Arnold learned his people skills while helping his father, a delivery-truck driver, make his rounds in Texarkana. After earning a business degree from Lamar University, he took a job with oil giant Conoco.

Arnold returned home in 1964 to run five Conoco stations. He hit pay dirt five years later with a revolutionary new concept: self-service gas stations attached to convenience stores. In 1989, he sold his 127 stations to Total Petroleum Inc. for about $150 million. He now owns a company that operates refineries, airport fueling services, and wholesale petroleum outlets in 17 states.

Arnold has dabbled in Arkansas and Texas politics for two decades—often with old friend McLarty. In 1976, McLarty introduced Arnold to Clinton, then an upstart candidate for attorney general, and the trio became fast friends. Clinton named Arnold to head up his Texas fundraising drive in 1992. Competing against home-staters George Bush and Ross Perot, he raised $10.2 million for the Democrats, including about $7.5 million for Clinton, one-fourth of his nationwide total.

After the election, Arnold bought a house two blocks from McLarty in Washington and continued to help out by raising money and lobbying for Clinton's 1993 economic plan. He got the top DNC money slot when Finance Chair Terry McAuliffe was tapped to head the President's reelection fund-raising drive.

DISGUST FACTOR. Arnold's big problem now is that the DNC fund-raising apparatus is reliant on big-money donors—while the GOP gets three-fourths of its money from a 900,000-person small-donor base. He predicts grassroots disgust with the hard-right GOP Congress will help him raise the $38 million he wants. "Newt Gingrich and Phil Gramm are serving us well," he says.

Broadening the DNC's financial base may cut into Arnold's passion—golf. He's a member of five country clubs, and he even bought a house near the Pebble Beach (Calif.) course, leveled it, and built a new one. Arnold may find that that project was a lot easier than rebuilding the DNC's rundown financial house.

By Richard S. Dunham in Washington and Gary McWilliams in Houston

TRUMAN ARNOLD

AGE 57 **HOMETOWN** Texarkana, Tex.

EDUCATION BBA, Lamar University, 1960

BUSINESS EXPERIENCE Chairman and CEO, The Truman Arnold Companies, a regional petroleum marketer. Other business ventures have included banking, cattle ranching, and gas stations.

POLITICAL EXPERIENCE Texas Finance Chairman for the 1992 Clinton-Gore campaign. Fund-raiser for former Texas Governor Ann W. Richards and Arkansas Senators David Pryor and Dale Bumpers.

FOB CREDENTIALS Longtime friend of White House counselor Thomas McLarty III. Clinton friend and golfing partner for 19 years.

CHICAGO TRIBUNE PHOTO

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EXECUTIVE SUITE

THE MORASS ENGULFING MORRISON KNUDSEN

Now, it must replace the two directors who sounded the alarm

As former National Security Advisers, Zbigniew Brzezinski and William P. Clark are no strangers to power struggles. Under Presidents Carter and Reagan, they proved formidable cold warriors. As outside directors at engineering and construction giant Morrison Knudsen Corp., Clark, backed by Brzezinski, masterminded the coup that ousted Chairman and CEO William J. Agee. But when it came time to rebuild deeply troubled MK, facing down the Russians almost seems easier. "I much preferred dealing with Brezhnev," says Brzezinski.

BLUE MONDAY William Clark threw in the towel Mar. 20, followed a day later by Zbigniew Brzezinski

In five weeks as acting chairman, Clark worked to expose MK's true financial state. But on Mar. 20, he abruptly resigned as chairman and director. Brzezinski followed a day later. Both moves stunned a board still reeling from the dismissal of the free-spending and autocratic Agee in early February and the surprise appointment in early March of a new CEO, Robert A. Tinstman, who headed MK's mining unit. The company, hemorrhaging red ink, is involved in touchy talks with its banks to avoid bankruptcy. "This doesn't help us with our customers, our employees, or our banks," says a source close to the board.

RAIL TROUBLE. Not that all of Clark's moves to overhaul the company had gone down well. One of his first decisions was to bring in Arthur Andersen as the company's internal auditor, replacing Deloitte & Touche. But Clark irritated several directors on Mar. 5 when he recommended hiring an insider as CEO, without bothering to interview three outside candidates offered by headhunters Heidrick & Struggles Inc. That firm is headed by board member Gerard R. Roche. The reason for the hasty move, say several sources: bank pressure to get a CEO in place, plus middle-management preference for an insider.

The day before Clark resigned, he called board members to alert them to the announcement on Mar. 20 of widening preliminary losses for 1994 of $310 million, up from estimates of $135 million just five weeks before. The chief culprit: the mass-transit railcar business, which had grown fast by dangerously underbidding contracts, say rivals and analysts. At no point, say several sources, was there mention by Clark of plans to resign. Then, moments before the board was to meet by phone on Mar. 21, Brzezinski stepped down.

Clark and Brzezinski say it was time to go. Clark insists he always intended to leave early "to return to prior family and professional commitments." Other sources suggest he may have tired of sometimes rancorous discussions with other directors over the pace of change and the severity of MK's problems. Clark denies any frustration. One touchy issue he leaves behind: some $140,000 in fees he has billed for five months' work.

With Clark gone, Brzezinski says he felt "all by myself without any business background." The threat of future lawsuits also played a factor, he says. Already, shareholders have filed 18 suits against MK, executives, and directors, seeking more than $200 million for allegedly misleading financial forecasts. MK stock has plummeted from nearly 30 a year ago to about 6½.

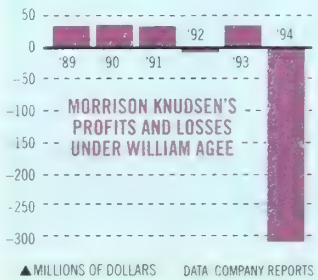
MK's immediate concern: gaining time from banks. It seeks to restructure $235 million in short-term debt on which it is in technical default and to raise $125 million in new loans. A source close to the board says MK thinks it can get a bridge loan by Mar. 31 to carry it through May and allow it time to sell off five noncore businesses, possibly raising $150 million. But dodging bankruptcy may yet be tricky, says Smith Barney Shearson Inc. analyst Tobias Levkovich. Sources close to the board say it hasn't seriously considered bankruptcy.

Longer-term, MK's mass-transit business poses the biggest problem. Sources say the board would consider a partnership or outright sale to offload the risk left from aggressive bidding for contracts. Meanwhile, though, MK is a year late on delivery of 113 transit cars, worth $215 million, for the California Transportation Dept. A $370 million contract for Chicago has been plagued by production glitches, and only 6 of 50 wheelchair-equipped cars due this summer have been shipped.

From his ranch in central California, Clark says: "This 83-year-old company has great vitality. I have no doubt about its survival." Even so, Velma V. Morrison, widow of MK co-founder Harry Morrison, worries about a board dominated by Agee's former supporters. "I'm praying and hoping we can get our feet on the ground," says Morrison, owner of 100 shares. Keep those prayers coming.

By Richard A. Melcher in Chicago and Dori Jones Yang in Seattle, with William C. Symonds in Toronto

AGEE'S RECORD



THE $20,000 SWEEPSTAKES FOR FOLKS WHO GOT THE AX

Laid-off workers are going to war with the IRS over buyouts

In April, 1993, Howard Aronoff reluctantly accepted an early retirement package from IBM, his employer of nearly 30 years. Like thousands of other workers in the massive wave of corporate downsizings, the software development planner, then 53, received a lump-sum payment based on his years of service.

The catch: To get the money, Aronoff had to sign a form promising not to sue IBM later. Although the form covered any type of employment-related litigation that Aronoff might consider, it singled out lawsuits alleging age discrimination. Thinking little of it at the time, Aronoff signed the waiver, collected his money, and eventually paid taxes of $30,000. "Like millions of Americans, we were being confronted with many things we didn't understand," Aronoff says.

EX-IBMers say buyout payments are really settlements against future age-discrimination claims and therefore shouldn't be taxable

But now that waiver, demanded routinely by companies reducing their workforces, is at the center of a legal battle brewing between thousands of downsized employees and the Internal Revenue Service. At issue is whether the buyout payments should be treated as severance pay or as settlements against future age discrimination claims, which may be tax-free. "This was like settling a case before it was even thought of," says Lowell E. Hofmann, who last year, with fellow ex-IBMer Aronoff, founded the National Organization of Downsized Employees Inc. (NODE).

BIG KITTY. Few prospects are less appealing than picking a fight with the IRS. Yet in a fairly stunning grassroots initiative, more than 5,000 ex-IBMers, as well as hundreds of former employees from corporate giants such as AT&T, Mobil, Boeing, and others have joined forces to take on the agency. NODE, operating out of Hofmann's cramped home-office in rural Salt Point, N. Y., has mushroomed from just a handful of downsized IBMers in New York to 4,300 members from 200 companies in 47 states. Another corporate alumni group, the Workforce Reduction Assistance Program, based in Raleigh (N. C.), is growing at an equally frantic pace.

Indeed, the organizations each have amassed legal war chests of about $1.5 million thus far—via NODE's $600 contributions from each of the former IBMers who have joined the suits. Alumni from other companies are building their own legal treasuries. Raleigh tax lawyer Royce Powell is representing groups made up of at least 300 former employees per company who chip in $375 a head. Several small groups already have filed suit. The bigger outfits expect to take the IRS to court later this year, after the agency rejects requests for refunds—which may average about $20,000—filed with employees' 1994 tax returns.

Each corporate group must bring its own case because the success of the actions will hinge on proving that each company paid the dismissed employees settlements to avoid future litigation—not that they were simply given taxable buyout packages. In the IBM matter, for example, lawyers must show that the company compensated displaced workers to avoid facing charges such as age discrimination. "The money was not given to the individual out of the goodness of IBM's heart," says Robert David Goodstein, who represents about 80 IBMers. "Instead, it was given because IBM was afraid of litigation."

STAYING ALOOF. The ex-workers have sought help from their former employers, who themselves stand to recoup millions of dollars in Social Security contributions. One lawyer's estimate puts IBM's potential refund related to its buyouts at $250 million. So far, however, no company is biting. "It's an issue between former employees and the IRS," says a spokesman for IBM, who adds that Big Blue believes that employee buyout packages should be taxed as regular income.

It's certain that convincing the IRS otherwise won't be easy. For the moment, the agency isn't talking, citing pending litigation. But tax experts say it is likely to argue that since the workers merely signed general waivers releasing companies from future liability, rather than actually bringing discrimination charges, the payments can't be viewed as nontaxable settlements. "Without a particular claim, it looks like they might have a problem," says tax expert David I. Kempler.

THE IRS is expected to argue that since employees haven't actually filed the claims, the money is severance, not settlements

Even if the employees win on that point, the law isn't yet clear on whether damages for age discrimination, currently taxable, should be viewed as being similar to tax-free claims for discrimination based on sex, race, or disability. The Supreme Court hears arguments on Mar. 27 on this question. Still, even in the face of such uncertainties, these idled employees aren't backing down. "We'll go to the Supreme Court if necessary," says Aronoff. And why not? The trip would only cost each of them $600.

By Linda Himelstein, with Ira Sager in New York and Keith H. Hammonds in Salt Point, N. Y.

Little Guys vs. The IRS

HOFMANN AND ARONOFF HAVE ENLISTED 2,700 OLD COLLEAGUES

INVENTORS

INSPIRATION, PERSPIRATION—OR MANIPULATION?

Critics say Jerome Lemelson abused patent laws to cash in

On Mar. 29, Washington's Smithsonian Institution will host a gala event with all the trappings of the Nobel Prize ceremonies in Stockholm. The occasion will mark the presentation of the first "Nobel" for U.S. inventors: the Lemelson-MIT Prize, a $500,000 annual award funded by Jerome H. Lemelson, a private inventor. Scores of dignitaries from industry, government, and academia will gather to honor the automotive engineer—his identity is now a secret—picked by a Massachusetts Institute of Technology committee as the best American inventor of 1995.

Behind all the expectant smiles, however, swirls an ugly controversy. It stems from the source of the new-found wealth that enabled Lemelson to create the prize: a $500 million windfall from a patent that covers automated systems for reading bar-code labels. These systems have become a mainstay in industry for tracking the flow of parts in factories and the movement of finished goods in the distribution chain—and for totaling purchases at supermarket checkout stands. Yet Lemelson was granted a patent in 1992, nearly four decades after he filed the application in 1954.

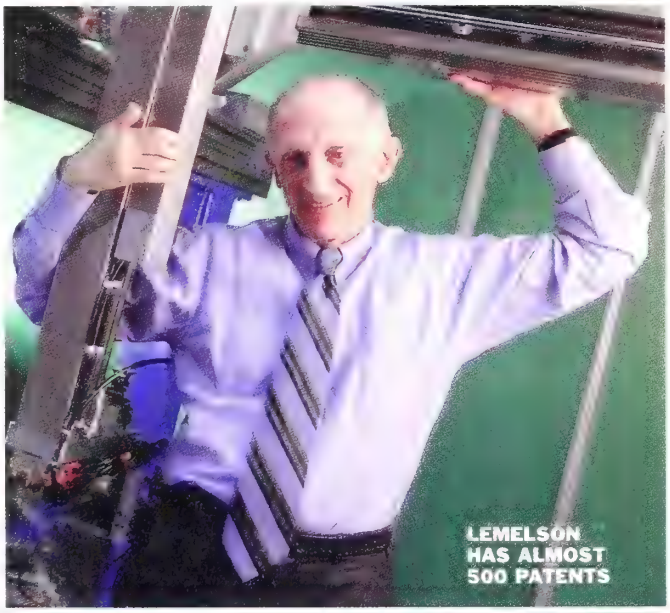
The companies that use and make bar-code reading systems are incensed at the prospect of paying royalties on such a mature technology. They're among the critics who charge Lemelson with manipulating the U.S. Patent & Trademark Office to get "submarine" patents. The game that Lemelson and a few others practice, detractors assert, involves intentionally delaying patents—by periodically filing changes and amendments—until the technology is worth far more than it would have been had the patents been issued earlier.

Lemelson argues that his critics are exaggerating to soften resistance to patent reform. He points out that the technology in his bar-code patent was covered by related patents that he won 18 to 20 years ago and that several companies licensed those patents. There is evidence to back Lemelson. Ronald J. Riley, an inventor in Grand Blanc, Mich., hired a patent attorney to check into Lemelson's bar-code patent. The lawyer found that Lemelson's revisions accounted for fewer than three of the 38 years it took the patent to be granted. "But the people who cite me for submarine patents don't bother to tell you that," Lemelson says. "Besides, it's absurd to think that I'd delay a patent until this age." Lemelson, who lives in Incline Village, Nev., will turn 72 in July.

Carmakers were Lemelson's initial target for back royalties, because the worldwide auto industry now relies heavily on bar-coding. Detroit's Big Three dug in their heels and have refused to pay. Lemelson is suing them. But most Japanese and European auto makers, including Honda, Toyota, BMW, and Volvo, signed a multipatent package deal, accounting for the bulk of Lemelson's $500 million bonanza.

TRADE SECRETS. It's a relatively modest price to pay for the auto makers. But that's not to say they're happy. In fact, the Lemelson patent fanned long-standing efforts by foreign companies and U.S.-based multinationals to change the U.S. patent system and bring it more in line with those of Europe and Japan. Since Congress has repeatedly ignored such proposals, the reformers made an end run around Capitol Hill and got a remedy included in the General Agreement on Tariffs & Trade. When GATT takes effect in June, U.S. patents will be valid for 20 years from the date an application is filed, not for 17 years from the date they are granted. "The main reason . . . is to eliminate the problem of submarine patents," says John J. Kloko, associate general counsel at DuPont Co.

The Patent Office also is moving to publish patent applications within 18 months of their filing date instead of keeping them confidential until a patent is allowed. This is to ensure that new technology enters the public realm quickly. Both of these provisions are common in other developed countries—but are strenuously opposed by many inventors and biotechnology companies. They fear what the changes might bring. "In Europe and Japan, individual inventors are



LEMELSON HAS ALMOST 500 PATENTS

THE FUROR OVER 'SUBMARINES'

Is inventor Jerome Lemelson a champ of the so-called submarine patent? The technique allows inventors to prolong for years the life of their patents by making periodic changes to their patent applications. A provision in the GATT treaty would eliminate the practice.

PADDED ROYALTIES?

In 1992, Lemelson was granted a patent that covers computer-read bar codes—38 years after he filed it. He has collected $500 million in royalties and license fees from Japanese and European auto makers. U.S. carmakers have refused to pay, and Lemelson is suing them.

HIS DEFENSE

Lemelson blames most of the delays of his bar-code patent on the U.S. Patent & Trademark Office. He and other inventors argue that GATT will cut the protected lifespans of the most important inventions, since winning a patent on a major breakthrough can take several years

are almost nonexistent," says Riley.

Were it not for the uniqueness of America's patent system, Lemelson wonders if he might still be tinkering in a garage. In the early days of his 40-year career as a lone inventor, Lemelson scrimped by, acting as his own patent attorney while his wife, Dorothy, kept food on the table as an interior decorator. He started out dreaming up new toys, including a Velcro dart-board game and a sticky "putty" that kids could use to lift a printed picture and apply it to another surface.

TECHNO-WONDER. In the 1960s his patents included technology for magnetic recording, fax machines, and in 1967, a toy vehicle that ran on bendable tracks—the subject of a 22-year legal battle with Mattel Inc. over its Hot Wheels toy, introduced in 1968. Lemelson won the case in 1989, but it was later reversed.

One of Lemelson's major coups came in 1974, when Sony Corp. bought a license to his touch-controlled tape drive for its Walkman tape recorders. All told, Lemelson has notched some 500 U.S. patents—making him No. 4 on the invention hit parade, after Thomas A. Edison, Elihu Thomson, and Edwin H. Land. And at his typical rate of a new patent every month, he could soon top Polaroid Corp.'s Land, who has racked up 533.

Lemelson is sympathetic to other independent inventors, but he would really prefer to remain aloof from the politics. So he is concentrating on various efforts to promote an entrepreneurial spirit, especially among college students, and to raise public awareness of the contributions that inventors have made to American industry. And the Lemelson-MIT Prize is just small change. So far, he's dipping into his piggy bank for $15 million in awards.

There's a $6 million gift to MIT over three years to fund a Lemelson Chair, organize Entrepreneurial Teams of students to work on real-world innovations, and provide all-expense scholarships of up to $30,000 a year. "The idea is to match what the schools pay star athletes," he says. A quintet of Massachusetts colleges, headed by Hampshire College, is getting $3.2 million to develop better ways of teaching innovation and to nurture budding inventors. And soon, Lemelson hopes to announce that the Smithsonian will house a Lemelson center of innovation, which he'll fund with $5 million over five years.

"Without doubt, I'm the most successful inventor in history," Lemelson says. And he gives absolutely no thought to retirement. So, if he eclipses Land's 533 patents, there's always Thomson's 696.

By Otis Port in New York

DNA DOC: *GTI co-founder Anderson*

BIOTECH

A BOOSTER FOR GENE THERAPY

Thanks to a broad new patent, investors can rest a bit easier

Like most of the biotech industry, gene therapy has had a wild ride on Wall Street. Advances in the ability to slip genes into cells have given rise to the tantalizing prospect of being able to fight everything from cancer to cystic fibrosis. But last year, the shares of the small companies trying to exploit the new technology plunged. Investors realized how daunting the road from lab to product is—and how hard it is to predict which company, if any, will end up owning key technologies and techniques.

Now, some of these issues are starting to settle out. On Mar. 21, the Patent & Trademark Office issued the first major gene therapy patent to three pioneering scientists at the National Institutes of Health. And under the terms of a 1990 technology-transfer agreement, the patent is automatically licensed to Genetic Therapy Inc. (GTI) of Gaithersburg, Md., one of the first—and largest—gene therapy companies. "This is the best thing that can happen to gene therapy," says lead inventor and GTI co-founder W. French Anderson. With patent protection in place, he predicts, "money will begin to flow back in."

Into GTI in particular. The patent is so broad that many experts are comparing it to the 1976 patent on gene splicing issued to Stanford University and the University of California at Berkeley. It covers all products based on so-called ex vivo therapy—the idea of taking cells out of the body, adding new genes, then putting the cells back in to tackle diseases. GTI's stock jumped 17.6%, to $10, on the day of the news—a sizable hike, though far from huge by biotech standards.

The reason: Many investors and GTI rivals still are unsure how big a victory GTI has won. "It's not as clear-cut as anyone would have you believe," warns Hal Broderson, co-founder of Rockville (Md.)-based gene therapy startup GenVec Inc. For one thing, the Patent Office has blundered recently, issuing broad patents for multimedia software and plant genetic engineering that, after strong protests, were withdrawn. CEO Robert T. Abbott of Viagene Inc., a San Diego gene therapy firm, suggests the GTI patent, too, may be so broad it's unenforceable. If so, he says, "the long-term commercial impact will be small."

IMPACT PENDING

The patent may be too sweeping to be enforceable, and many investors and GTI rivals are still unsure how big a victory GTI has won

Perhaps more important, research is rapidly evolving away from GTI's approach. Companies working on ex vivo approaches may have to license the GTI patent, but the industry is moving toward "in vivo" methods—injecting genes directly into the body. That isn't covered in the new patent.

The situation is complicated by patents already held on bits and pieces of gene therapy. Somatix Therapy Corp., for example, has rights to a few types of cells, and lots more patents are pending. By the time products come out, every company will have to assemble a portfolio of patents, some licensed from others, predicts Somatix Chief Financial Officer Mark N. K. Bagnall.

Still, many GTI rivals are happy the government is issuing broad patents for gene therapy—even if they mostly benefit GTI now. "It's a very positive signal," says Lisa J. Raines, vice-president of Genzyme Corp. in Cambridge, Mass. But given the continuing doubts about the implications of the GTI patent, the wild ride for investors may not be over.

By John Carey in Washington, with Joan O'C. Hamilton in San Francisco

BASEBALL

LET'S SEE THE OWNERS PITCH THEIR WAY OUT OF THIS

If they don't compromise now, it could cost them big

In baseball, it's called a pickle. A runner, fooled by a good pick-off move, gets trapped between bases. He can't go to second or he'll be thrown out. And he can't return to first, where the ball is waiting. Either way, he's stuck.

Baseball's owners look to be caught in a pickle of their own design. Any day now, the National Labor Relations Board is expected to seek a federal court injunction in New York against the owners, based on an NLRB finding that the owners used unfair bargaining practices. If granted, the court order would restore the salary structure in place under baseball's last ratified contract, prompting Major League players to end their seven-month-old walkout. It also would set up a potentially costly confrontation.

JUST ONE OUT. If the owners let the players back into the stadiums on opening day, Apr. 2, they'll lose much of the leverage they've built up in bargaining. But if they lock out the players' union, as Boston Red Sox CEO John Harrington has threatened, the owners eventually could have to fork out $5.5 million a day in players' salaries—and, possibly, triple damages on top of that. The reason: Labor law typically forbids lockouts if employers have bargained unfairly. "A lockout runs the risk of back pay, and the clubs will be apprised of that," says Charles P. O'Connor, the league's chief labor lawyer.

The owners have one viable out: compromise before the NLRB crunch. Having wrung major concessions from the union since last August, the club owners still would come out ahead even if they agreed to a deal that doesn't give them everything they want. Ballplayers, anxious about losing a full season in pay, are eager to avoid an opening day showdown. As a result, the two sides finally have negotiated their way into the same ballpark. In the past month, the players have given in to the owners' demand for a mechanism to restrain salary growth. And the owners have ditched the salary-cap approach in favor of the union's idea of a luxury tax on teams with high payrolls.

But the owners still are haunted by past overaggressiveness. In December, they declared talks to be at an impasse and ended the existing salary arbitration and free-agency bidding systems. In their place, the clubs imposed the salary cap they wanted. Two months later, the NLRB warned owners that they probably had illegally jumped the gun because the two sides didn't seem to be at an impasse as federal law requires.

The owners have been dancing at the edge of the law ever since. They dumped the salary cap after the NLRB warning but refused to reinstate the old system. Finally, on Mar. 14, the NLRB's general counsel recommended that the agency seek a court injunction to restore the old system while talks continue. League lawyer O'Connor says the NLRB is misguided. The players say that the NLRB has sided with the right team. "This is not a good situation for the clubs," says Gene Orza, an in-house lawyer for the union.

ON THE HOOK. Although the owners continue to talk tough, locking out players after an NLRB injunction would heighten their risk dramatically. If the NLRB finds the lockout illegal, the league could be on the hook for players' salaries totaling some $1 billion for the season. That amount could be tripled if the lockout also was found to have violated the old contract's anticollusion clause. "If they got stuck with back pay and still had to reinstate the old rules, it would be a colossal failure," says Gerald W. Scully, a University of Texas management professor and the author of a book on the economics of baseball.

The irony is that the two sides aren't that far apart anymore. The union's latest proposal calls for a league tax of 25% on any club whose payroll exceeds the average for the league by more than 33%. The owners have countered with a 50% tax on clubs that exceed last year's average of $40.7 million per club. That sounds pretty close, but "everything is relative," says O'Connor. "And these aren't average people—on either side." True, this is baseball. But even in this strange business, logic eventually should triumph over emotion.

By Aaron Bernstein in New York

RINGER TRAINING: *Rookie replacements in Florida*

Owners may end up owing $1 billion in back pay–and that could triple depending on further NLRB rulings

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In Business This Week

EDITED BY KEITH H. HAMMONDS

THE SHORT LIST OF KMART CONTENDERS

ATOP KMART'S SHOPPING LIST: a new CEO. Embattled executive Joseph Antonini resigned on Mar. 21, nine months after a shareholder revolt at the annual meeting. One possible replacement is Ronald Floto, a Kmart executive vice-president who was elevated to interim chairman of the company's executive committee. Other candidates: Michael Bozic, CEO of Hills Stores, and Robert Nakasone, president of New Jersey-based Toys 'R' Us and a onetime protégé of Kmart Chairman Donald Perkins. Whoever wins likely will have an easier time than Antonini. Kmart already has axed nearly 1,000 workers from its headquarters staff and sold off specialty businesses such as Sports Authority and OfficeMax.

ONE MORE SWIPE AT THE PENTIUM

LITTLE BY LITTLE, INTEL IS losing its microprocessor monopoly. Compaq Computer is expected to announce as early as Mar. 27 that a future personal-computer line will use the only existing challenger to Intel's Pentium—a chip made by tiny NexGen of Milpitas, Calif. An investor in NexGen, Compaq would be the first big PC maker to use its chip, though it also will use Advanced Micro Devices' upcoming Pentium rival. Intel's preemptive strike: A faster Pentium on Mar. 27.

NOW YOU CAN BE A RUBBER BARON

WANT TO BUY A RUBBER COMpany? Gates is looking for a buyer for its Gates Rubber subsidiary, the world's largest maker of automotive and industrial belts and hoses. Family-owned Gates, which had revenues of $1.46 billion last year—virtually all of it from Gates Rubber—will hold on to an energy company, some Colorado real estate, and its 10,000-acre A-Bar-A guest ranch in Encampment, Wyo. Now run by Charles Gates, son of the founder, Gates has no third-generation heir apparent. The company is looking for a tax-free stock swap.

'NEXT ON *NOVA*, THE MCI YEARS'

CAN WE LOOK FORWARD TO A Ken Burns documentary on the history of telephony? On Mar. 23, MCI Communications, the nation's No. 2 long-distance telephone company, was set to announce that it would form a joint venture with the cash-strapped Public Broadcasting System to develop programming for public TV and other, interactive, media. Under terms of the arrangement, MCI says it will invest at least $15 million in the venture over the next five years. For the phone company, it's a step toward being a content provider, in addition to acting as a distributor of information. Its first programs could be ready to air as soon as next year.

A BIG DENT IN NEW STEEL MILLS?

NUCOR'S MAR. 20 PRICE CUT could signal far more than the end of steel's two-year-old bull market: It may undercut financing for several new mills planned for later this decade. Following word of Nucor's intentions to reduce flat-rolled steel prices 5%, steel stocks hit 12-month lows. That won't help Pittsburgh startup WorldClass Steel, which plans to build the first new mill in the area since World War II. It already has missed its self-imposed St. Patrick's Day deadline for raising $440 million, and steel sources say a chief lender, Mellon Bank, won't advance $235 million unless WorldClass finds a big partner. Another Pennsylvania startup, BRW, still seeks a cheap caster. The silver lining: Fewer new mills means lower capacity—and less glut.

ET CETERA . . .

- Pay-cut targets: Lotus Development's Jim Manzi, Salomon's Robert Denham.
- Tampon maker Playtex agreed to sell a 40% interest to a group for $180 million.
- Loral will acquire Unisys' defense and aerospace operations for $862 million.
- Could it be? UAL said 1995 costs are coming in below expectations. Its stock jumped.

HEADLINER: NOBUYUKI IDEI

AN IDEI WHOSE TIME HAS COME

"It was a bolt from the blue," said Nobuyuki Idei. No kidding. When Idei was formally tapped to be president of Japan's giant Sony on Mar. 22, he leapfrogged no fewer than nine executives above him.

Current Sony President Norio Ohga had been expected to choose an heir this year as he nears retirement. But few expected Idei to win. Though a product-design whiz who masterminded such hits as Sony's original compact-disk player and the PlayStation game machine, the 57-year-old Idei knows little about music or films.

"He couldn't take up the conductor's baton at a software company tomorrow," Ohga acknowledged at a briefing, "but I'm sure he can get the knack of it."

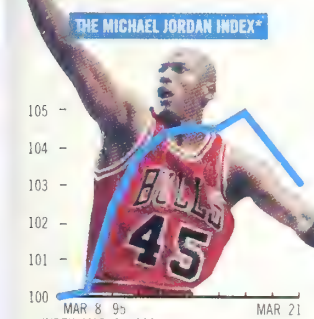
Indeed, the feisty and hard-charging Idei is known as a quick study. An economist by training, he spent nine years in Europe and is fluent in English. He says he knows how to talk to Sony America CEO Michael Schulhof and key execs at Sony's troubled Columbia Pictures. And he'll have help: Ohga stays on as CEO after Idei's appointment takes effect Apr. 1.

By Larry Holyoke

CLOSING BELL

HOOP DREAMS

When rumors began on Mar. 9 that an underwhelming baseball talent named Michael Jordan was returning to the Chicago Bulls, Wall Street smiled on companies whose products His Airness endorses. By Jordan's Mar. 20 debut, shares of Nike, McDonald's, Quaker Oats, Sara Lee, and General Mills had enjoyed a combined spike of nearly 4%. Now that Jordan is back, though, Michaelmania has cooled off.



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INDEXED STOCK PERFORMANCE OF FIVE COMPANIES WITH PROMOTIONAL TIES TO MICHAEL JORDAN
DATA BLOOMBERG FINANCIAL MARKETS

When was the last time the Britisl

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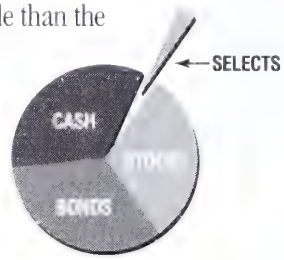

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EDITED BY OWEN ULLMANN

THE COMMERCE DEPT. MAY BE A GONER

As the first visionary Commerce Secretary, Herbert Hoover made the term "probusiness" synonymous with the GOP. His success at forging government partnerships with the private sector took him all the way to the White House. Today, he's surely spinning in his grave. The department Hoover built is on the block, put there by his own party.

In a budget-cutting stampede, Republicans want to hang a "For Sale" sign on the Herbert Hoover Building, home of the Commerce Dept. But the current Commerce Secretary, Ronald H. Brown, is resisting the push to gut his agency. He has won raves from business for transforming Commerce from a stodgy backwater since Hoover's day into a global export promotion machine.

So you would think CEOs would be resisting with Brown, right? Not quite. Neither the National Association of Manufacturers nor the U. S. Chamber of Commerce have jumped to Commerce's defense. That makes the department's future dicey. "We'd like to see something constructive come out of this," says Richard E. O'Leary, chairman of Minneapolis-based H Enterprises International Inc., an exporter of construction supplies. O'Leary, like many execs, doesn't give a hoot if Congress shuts Commerce down—so long as export promotion and training for manufacturers surfaces elsewhere: "We don't care where the programs are. We want the best ones to function better at the least cost."

FOR SALE? *The GOP says yes*

With business sitting on the sidelines, the GOP is sharpening the ax. Senate Majority Leader Bob Dole (R-Kan.) proposes abolishing four departments, including Commerce, to save $70 billion. His rival for the 1996 GOP Presidential nomination, Senator Phil Gramm of Texas, seeks to kill "corporate welfare" programs at Commerce—the Economic Development Administration, the Travel & Tourism Administration, and trade promotion—to fund a capital-gains tax cut. Senate Foreign Relations Committee Chairman Jesse Helms (R-N.C.) wants the State Dept. to run the export programs. And House Budget Committee Chairman John Kasich (R-Ohio) embraces Gramm's plan while going him one further: He'd gut Commerce's subsidies for high-tech research and development. "Giveaways to big business," sniffs Kasich.

Such talk makes the Republicans sound like populists, but the real motivation is pure politics: Brown's murky personal finances have tarnished his image as the globe-hopping trademeister CEOs love, and have made Commerce vulnerable to a budget assault.

SHUFFLING. Even among Clintonites, there's talk of downsizing the department. On Mar. 20, Commerce Under Secretary Everett M. Ehrlich proposed jettisoning the Census Bureau and Bureau of Economic Analysis, which he oversees, so that the government's far-flung statistical services could be consolidated under one roof—probably outside Commerce.

To Reinventing Government buffs, reshuffling is overdue. With a $4.2 billion budget and 36,000 employees, Commerce is an amalgam of programs housed together for reasons long forgotten: The National Weather Service coexists with the Patent & Trademark Office, while a national aquarium is maintained in the basement. "Organizational changes are in order," concedes Xerox Corp. lobbyist J. Michael Farren, chief of Commerce trade programs in the Bush years.

How much of Commerce might actually be dismantled? Many downsizing experts say business would be happy with a new, lean Trade Dept. that could operate at a fraction of current costs. After all, the highly regarded Office of the U. S. Trade Representative gets by with 168 people and a $20 million annual budget. Given such savings, Commerce's biggest defender may be the ghost of Herbert Hoover.

By Douglas Harbrecht

CAPITAL WRAPUP

WOMEN ON THE WEB

▶High-tech House Speaker Newt Gingrich may be headed for a nasty collision on the Information Highway. A group of women appalled by Gingrich's radical right agenda has posted a bulletin on the Internet, urging like-minded women to use "Third Wave" technology to fight back. The New York-based Women's Leadership Network will create a World Wide Web page and publish a daily hotline on the Net to advocate more liberal women's positions.

COURTING CHRISTIANS

▶With their favored candidate—Dan Quayle—sitting out the 1996 race, Christian conservative activists are tapping other GOP Presidential hopefuls to promote their cause. Right-wing commentator Patrick J. Buchanan has signed up Christian Coalition field director Guy Rodgers as campaign manager. Senator Phil Gramm tapped fund-raiser Bob Heckman to mobilize the religious right. And Senate Majority Leader Bob Dole hired Steve Scheffler, a former aide to televangelist Pat Robertson, to offset fears he's too moderate.

JUNGLE WARFARE

▶The U. S.-French export promotion battle goes on. Raytheon Co. last year thought it had locked up a $1.2 billion Brazilian contract to provide surveillance equipment to monitor ecological damage and drug trafficking in the Amazon rain forest. But new U. S. intelligence indicates the French are pressuring Brazil to scrap the Raytheon deal and award the contract to France's Thomson CSF.

MEXICO

ZEDILLO HITS THE ROAD

But so far, his austerity package is no crowd-pleaser

The Boeing 757 pulled up to the Durango Airport terminal, and President Ernesto Zedillo Ponce de León strode down the steps to the beat of a military band. The Mexican leader and his wife, Nilda, walked hand in hand to a white bus. The simple caravan, escorted by just two police cars, drove off.

Arriving at the Durango Technological Institute to inaugurate a running track, Zedillo spotted some students who were being barred from the event. Ignoring warnings from security agents, he yanked away the police barriers. "All students were invited to come—let them in," Zedillo ordered.

What's going on here is the remaking of a Mexican President. After a hesitant, near-disastrous start, Zedillo is finally emerging from his cocoon, granting interviews and making bold political moves, such as ordering the arrest of the brother of his predecessor on murder conspiracy charges.

It's about time. His penchant for holing up at his Los Pinos residence rather than going out and defending his policies contributed to the financial panic that has turned his first 100 days in office into a nightmare. He seems to realize this reticence was a mistake. So with a tough, new austerity package in place, he is out selling it to the country. "His image was being handled badly," admits a senior aide charged with sprucing up Zedillo's public persona. "We're trying to change that." The new openness seems to be helping Zedillo shed the aloof and unpolished image that alienated many constituents. After weeks of rumors that he might be ousted, the President's polls now show that his approval rating has risen from 30% to about 60%.

At the university, he seemed to thrive on the students' enthusiasm. He happily donned a maroon-and-white school jacket with his name embroidered on one sleeve and leaped atop a wall to address students. "It's true that Mexico is facing grave economic problems," Zedillo told the crowd. "But when we, the Mexicans, are faced with difficulties, we don't stand there with our arms crossed. We go to work!" he

WORKING THE CROWD: *President Zedillo is shedding his aloof image*

Zedillo's New Rescue Scheme: A Tough Sell

It's going to feel like major surgery without anesthetic

AUSTERITY MEASURES

PROPOSAL Raise VAT from 10% to 15%. Tighten credit. Boost fuel prices

RISKS Could create deep recession, spark unrest

BANK BAILOUT

PROPOSAL $9.4 billion in help for restructuring bad loans, $3 billion for boosting bank capital

RISKS May not be enough to cover problem loans

JOB PROGRAM

PROPOSAL $245 million to create 550,000 jobs

RISKS Layoffs may be much higher

PRIVATIZATION

PROPOSAL Raise $12 billion to $14 billion through selling ports, railroads, petrochemical plants, telecom licenses

RISKS Investor interest may be weak

DATA: BUSINESS WEEK

shouted, to resounding cheers of "Zedillo, Zedillo, rah-rah-rah!"

Not everyone he encountered was full of warm wishes. A crowd of 100 or so *Duranguenses*, protesting the emergency hike of the value-added tax to 15%, blocked an entrance to the government palace where Zedillo was speaking. They hurled insults, drowning out his words. "Where's the well-being for our families that Zedillo promised in his campaign?" yelled 40 year-old nurse Guadalupe Gavlán. "All we've got are more taxes, hunger, and unemployment."

Zedillo dismissed the incident as local posturing for upcoming state elections. But all over Mexico, growing numbers of small business owners and farmers as well as leftists have been protesting the harsh conditions of Zedillo's emergency economic program. They say the tight fiscal and monetary controls, hikes in gasoline and electricity prices, and wage ceilings are pushing the country into a long, deep recession. But Zedillo, a Yale-trained economist, argues that stern measures will shorten the hard times. In an interview on the presidential plane, he confidently argued that a quick if painful adjustment was better than the slow turnaround of previous crises. He predicts recovery by yearend.

Businesses are not so confident. Many think they could be wiped out before the recovery. "We've survived before," says Fernando Urquijo Leal, sales director of his family's aluminum-panel company in Monterrey. "But now there's just no money." The company has already shifted to a four-day workweek.

Zedillo's plan to keep Mexico's economy from tanking is three-pronged: speed up the privatization program to raise billions in needed cash, introduce inflation-indexed facilities to bring the real cost of business and consumer loans down, and help companies increase their export capabilities to take advantage of the cheaper peso.

"MORE COMPETITIVE." Already, the devaluation has had a dramatic effect on Mexico's trade balance: The country showed a $453 million surplus in February, the first in seven years. Most of that resulted from a sharp drop in imports, but a 34% increase in exports from manufacturers other than *maquiladoras* also contributed to the surplus. "The devaluation makes us much more competitive," says Industry & Commerce Secretary Herminio Blanco.

Officials are also rushing to complete $12 billion to $14 billion in privatizations begun under the previous government. "We're in the final stretch this month," says Communications & Transportation Secretary Carlos Ruiz Sacristán. "A lot of things will happen in April."

While it is questionable whether investors will snap up petrochemical plants and antiquated ports and railroads, there is a lot of confidence that satellite frequencies and phone-service concessions will draw interest. Eight foreign companies, including AT&T and MCI Communications Corp., have linked up with local partners to bid for long-distance slots.

But even foreign investors echo the doubts of many Mexicans. "Tax increases are not the way to save the economy," says Franz Baumgartner, general director of BMW, which plans to roll out its first Mexican-assembled car in March. Then he lists what he'd like to see: tax relief, job creation programs, efforts to control interest rates, and more support for business. The government says it will do all that, but no one seems to believe it. That's where Zedillo's newfound political skills could come in handy.

By Geri Smith in Durango, Mexico, and Elisabeth Malkin in Mexico City

"THEY DIDN'T ELECT ME TO HAVE A PLEASANT TIME"

Mexican President Ernesto Zedillo Ponce de León is battling to stabilize the peso and put his country back on the growth track. His tough new austerity program has calmed the markets somewhat, but it is very unpopular in Mexico. On a flight from Durango to the capital, Zedillo talked with BUSINESS WEEK'S *Mexico City bureau chief, Geri Smith.*

His strategy for recovery:
From the very first day, I spoke of the need for an intense but brief adjustment period so that we could go into a growth path.

On export-led recovery:
Once the financial problem is overcome, I believe the economy will begin to react. I believe the true motor of reactivation will be exports.

On his goals:
What I want to see is Mexico as a country with a growing economy, with a justice system that works, with a more democratic political system.

On the influence of drug traffickers in government:
I have said that the chief legal and national security problem that Mexico has is narcotrafficking. There is evidence that some individuals in the government may have served the narcotraffickers' interests.

What can we do about it? Improve the government's ability to enforce the law through judicial reform. Also, we need more cooperation from the U.S.

On Mexico's strengths:
If the world has the impression that the country is in ruins, it's wrong. Over the last decade, the country carried out a more profound structural change than any other economy in the world.

Mexican society has accepted the notion that we must have an open economy, linked to the world. That is irreversible. We must continue down this road.

JORGE NUNEZ/SIPA

SOCIAL UNREST

"The important thing to explain to the people is that if we don't take these measures... the social cost will be much greater"

On public protests:
Yes, I am worried about the social uncertainty. The crisis is having an impact on the standard of living of Mexicans. But the important thing to explain to the people is that if we don't take these measures, the social cost will be much greater.

On the headaches of the job:
They didn't elect me to have a pleasant time. They put me here to resolve problems. Never in my life have I felt so motivated, so responsible, so committed to something as I do now.

FRANCE

TWILIGHT OF A CZAR

How Alcatel's chief was exiled from the corridors of power

Alcatel Alsthom Chief Executive Pierre Suard hurries down a flight of stairs to the courtyard of an elegant Paris apartment house. He is courteous but ill at ease as he ushers a visitor into a formal salon. Until he was barred from executing his duties by a French court on Mar. 10, Suard reigned over the world's largest maker of telecommunications equipment. Although he's still Alcatel's chief, Suard is forbidden contact with the company pending the conclusion of corruption investigations that target him and Alcatel.

Many French businesspeople think Suard's career is over—regardless of the probe results—because Alcatel's tarnished global image needs cleansing. In fact, BUSINESS WEEK has learned that some Alcatel directors favor ousting Suard. That would be a stunning development in France. Confides one Alcatel director: "Suard won't be coming back ....When a new CEO arrives, Alcatel will be a different company." It may need to be, since earnings at the $32 billion company plunged more than 40% last year, and competitors are racing to pick off new markets.

BITTER END. Yet Suard, 60, says he won't give up without a fight. He claims the court inquiries of customer overbilling, purported illegal political contributions, and alleged personal use of company funds have been trumped up by a foreign corporate rival. He won't name it, but the Paris rumor mill thinks he has in mind Sweden's Ericsson. "I can't imagine this process could last so long after I have given such proof of my innocence," says Suard.

It's a bitter end for a man who by all accounts forged a model French career and played by the rules of the French Establishment. His fall has become a case study in how the traditional ties between French business and government are coming under unprecedented pressure from a variety of forces: a newly activist judiciary and press, demands for clearer and more responsible corporate governance, and the need, in a global economy, to break out of a protectionist mentality.

Yet Suard just missed sailing into retirement a hero. A quintessential product of French elite schooling, Suard started his career as a civil servant, spending three years as a top aide in the powerful Finance Ministry from 1966 to 1968. Although tight-lipped and formal, Suard picked his friends well. One of those friends, Edouard Balladur, today is Prime Minister.

Suard joined Compagnie Générale d'Electricité (CGE), France's giant engineering, transport, and telecom conglomerate in 1973. He turned around the near-bankrupt cable division and made it CGE's most international business. His low-key demeanor pleased his demanding boss, Georges Pébereau, who was installed at CGE by the Socialists after they won the presidency in 1981. Appointed vice-chairman in 1985, Suard played a key role in executing Pébereau's daring strategy to purchase a stake in ITT Corp.'s phone-switch operation.

The ITT deal transformed Alcatel from a telecom laggard into a global contender. Yet when the Gaullists won the Prime Minister's office in 1986, Pébereau lost his job. Instead, the Gaullists—including new Finance Minister Balladur—put Suard into the top spot at CGE. Balladur later bowed to Suard's

AT FRANCE TELECOM: *Did Alcatel massively overbill the monopoly?*

Suard asserts that the charges of fraud and corruption are part of a conspiracy to discredit him and destabilize Alcatel

NECESSARY EXPENSE? *Alcatel paid for Suard's security system*

UNWELCOME ATTENTION: *Suard confronts a photographer near home*

desire to privatize the company, which emerged with a new name, Alcatel Alsthom. When the Gaullists were out of power between 1988 and 1993, Suard employed Balladur as a consultant to one of Alcatel's subsidiaries, a job that earned Balladur $20,000 a month.

Soon after becoming CEO, Suard pursued his vision of besting AT&T in phone equipment. A series of acquisitions starting with ITT bought him that goal. "I wouldn't do anything differently," says Suard. "The strategy has been right."

But the world didn't stand still as Alcatel expanded rapidly. As telecom, computer, and media technologies rapidly merged and deregulatory forces started rumbling around the globe, savvy rival CEOs were breaking up rigid hierarchies and creating nimble subsidiaries. Yet Alcatel was slow to adjust, depending too much on state-owned France Telecom and Deutsche Telekom for the majority of profits. This arrangement just delayed when Alcatel would have to compete without state aid.

Other weaknesses developed. Poor management oversight hurt Stuttgart-based Alcatel-SEL, which was slammed by price competition and huge penalties for being slow to deliver updated software for its switches to the German Bundespost. Losses at Alcatel SEL will total an estimated $286 million in 1994. Alcatel also was beaten to market in such technologies as cellular communications by Nokia, L. M. Ericsson, and Motorola.

As late as 1993, Suard was still celebrated in the French press for making Alcatel the biggest supplier of switches in the world. That all changed in 1994. A new generation of French prosecuting magistrates was pursuing leads on a variety of corruption cases involving local government, campaign financing, and big business. Alcatel got caught in the dragnet when two employees arrested for fraud told investigators of a scheme to systematically overbill France Telecom. Magistrates are now looking into several cases of alleged overbilling that may total $150 million. Alcatel denies the allegations and questions the motives behind these revelations. Yet critics of France's cozy links between government and business charge that any extra profits Alcatel allegedly milked from France Telecom were in effect government subsidies. France Telecom remains silent on the issue.

In July, 1994, a new investigation was opened—against Suard himself. Sources alleged that Suard had used $750,000 in company funds to refurbish his homes. He says the funds paid for a security system that the company wanted him to install. No matter. The prosecutors have widened their inquiry. They are questioning the company about a tortuous trail of payments that flowed from Alcatel affiliates to offshore bank accounts and back to the Gaullists. One ex-Cabinet minister targeted in this inquiry is Gérard Longuet, who supervised telecommunications. He denies any wrongdoing.

SINISTER CAMPAIGN. Suard's role in these probes remains a mystery. It's unclear whether he actively directed the alleged illegal use of company funds, and some members of the Establishment are rallying to his defense. In a page one editorial, the conservative daily *Le Figaro* worried that publicity-hungry judges were destabilizing a key French company. At least one board member says the prosecutors are "totally wrong." He adds: "There's a lot more support for Pierre than anyone thinks."

In the latest act, Suard made a surreal appearance on French television news on Mar. 15. Defiant, he blamed the scandals on this sinister destabilization campaign. He even threatened to transfer company headquarters to Brussels. The denouement of this drama has yet to come. But the toll it has exacted on Pierre Suard, Alcatel, and France's self-image has already been enormous.

By Gail Edmondson, with Marsha Johnston, in Paris

Rise and Fall of a French Insider

1954 Pierre Suard's first step to joining the elite. Graduation from Ecole Polytechnique.

1960–73 Building the résumé. Stints at Public Works Ministry, Paris airport authority, Finance Ministry, and engineering firm.

1973–85 Career takeoff. Joins Compagnie Générale d'Electricité, later renamed Alcatel. Turnaround expertise lands him No. 2 job.

1986–93 Suard's golden era. As chief of privatized Alcatel, embarks on worldwide expansion.

1993 The first sign of trouble. Accusations that Alcatel overbilled France Telecom rock the company.

1994 The crisis. Suard placed under investigation for spending involving his residences, and judges pursue reports of illegal campaign financing.

1995 The fall. Suard barred from acting as CEO while investigations continue.

DATA: BUSINESS WEEK

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COMMENTARY

By Robert Neff

WHY JAPANESE DEREGULATION WON'T MUCH HELP AMERICA

Once again, expectations for the opening of Japan's markets to greater competitive forces are crashing to earth. On Mar. 31, after months of promising to unveil hundreds of dramatic steps to deregulate an economy bound up in red tape, the Japanese government will issue its report. But already, hopes for new business opportunities are being dashed by preliminary news that nothing much is going to change.

In the runup to this purported watershed, organizations of Japanese and foreign businessmen faithfully filed reams of suggestions for how to decontrol the economy. After all, said Keidanren, Japan's loftiest business lobby and liberalization advocate, deregulation would lift Japan's economic growth by almost 1% a year. At a time when the economic recovery appears to be weakening, that would be welcome news. Consumer confidence is shaken, battered by events as disparate as the Kobe earthquake and the horrible nerve-gas bombing of Tokyo's subways.

By one count, the country has more than 11,000 rules in place to regulate business. One study says observing them costs Japanese industry and consumers from $75 billion to $110 billion a year. Because of weight limits and other rules, shipping a standard 20-foot container between Tokyo and Osaka costs $1,888, vs. $1,444 between Japan and Europe. Imported gasoline, much cheaper than domestically refined gasoline, is simply forbidden.

But the "interim reports" recently released by the government show that in the end, little will change. The U. S., the European Union, Keidanren, and other interested parties have already expressed their disappointment. *Nihon Keizai Shimbun*, Japan's leading economic daily, complains that the tentative proposals are strewn with vague "bureaucratese" that is bereft of real content.

No one should be surprised. First, the drafting of the deregulation plan was left to Japan's powerful bureaucrats, who have always managed to define the nation's interest purely in terms of their own. They have never shown any willingness to curb their authority and give up power to foster greater market competition, foreign imports, or consumer prosperity. The power of the bureaucrats has never been greater, given the exceptional weakness of Japanese politicians at this point in Japan's history.

In fact, there is strong reason to doubt that the Japanese people really want that much deregulation. It is true that they pay lip service to the idea. But when push comes to shove, the Japanese, perhaps more than most, look toward their government for protection and succor. Thus the country's plethora of rules and regulations. There is no public opposition to Japan's safety rules that effectively require all automobile replacement parts to be Japanese and not American or European.

The brutal truth is that deregulation, when it comes, will probably be designed to enhance the competitiveness of Japanese companies as much as it helps foreign businesses. Deregulation will not be the leg up that many U. S. and European companies hope it will be. "Deregulation" already looks ready to follow the "Structural Impediments Initiative" and the "Framework" talks, becoming one more buzzword that promises much more than it delivers. Perhaps that is why many foreign investors have turned from Japan bashing to Japan passing. They have given up hope of breaking the choke hold Japan's bureaucrats have on the economy and are moving on to more attractive Asian markets in China, India, and Southeast Asia.

GINZA SHOPPERS: *Japan is unlikely to become any more open to U.S. goods*

> When push comes to shove, the Japanese, perhaps more than most, look toward their government for protection and succor

Neff is BUSINESS WEEK'S *Tokyo Bureau Manager*

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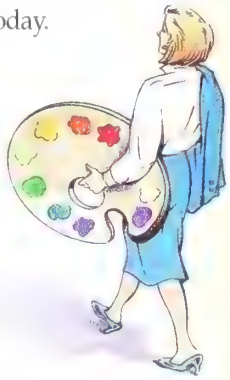

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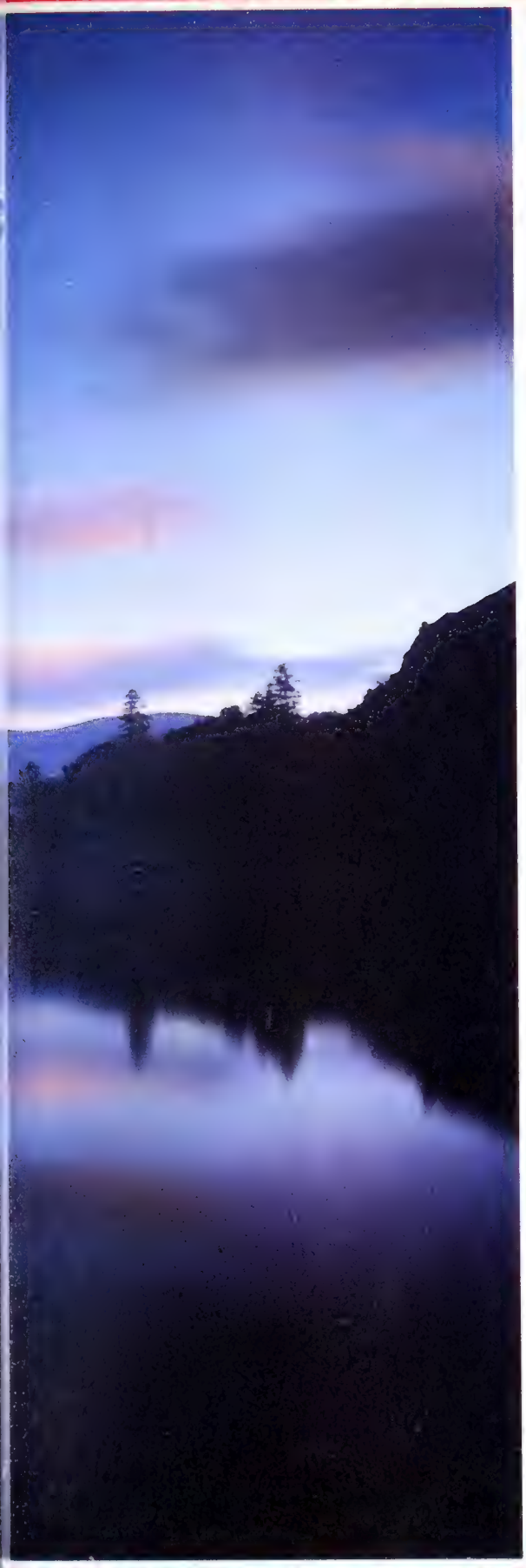

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IS THE LIRA BECOMING THE PESO OF EUROPE?

The economies of Italy and Mexico don't have much in common. Italy, after all, is an export powerhouse and a full partner in the Group of Seven, representing the world's most powerful economies. But when the Milan stock exchange caved in and the Italian lira plummeted almost 6% against the dollar and the German mark on Mar. 17, Italians and other Europeans began to wonder whether a Mexican-style meltdown might be possible in Europe. A collapse of the lira would rock Europe's trading system and ratchet up pressure on other currencies, including Spain's peseta and the French franc.

Although the lira stabilized afterward, the brief panic was a reminder that Italy's embattled Prime Minister Lamberto Dini has only the slimmest room to maneuver in his efforts to bring Rome's public finances in line. Dini did win parliamentary approval in mid-March of $20 billion in tax hikes to plug a hole in this year's budget. But only votes from the far-left Communist Refoundation party put the technocratic leader over the top. Now, Dini faces the even trickier task of getting Parliament to sign off on paring down Italy's no-longer-affordable pension system.

But the real problem spooking investors is political. They fear that Italy is headed for a political collapse that will sabotage any budget-cutting. Dini, a stopgap Premier committed to resigning in the next few months, is weak and likely to get weaker. He is coming under increasing attack from the center-right Freedom Alliance coalition headed by media tycoon and former Prime Minister Silvio Berlusconi. This group wants national elections as early as June—assuming that, as the polls show, Berlusconi would be swept back to power. "A majority of the country is with us," says Giuliano Ferrara, a Berlusconi aide.

In Dini's corner for now is the center-left coalition of former Communists, the Northern League/Lombard League, and many former Christian Democrats. They want to put elections off until at least the fall to give Dini a chance to pull off pension reform and a tough 1996 budget. This group also hopes that national sentiment will once again turn against Berlusconi, whose populist rhetoric is sounding increasingly hollow.

So Berlusconi and his allies are likely to do all they can to bring the government down now. That is why investors are fleeing. They worry that Italy is going to be plunged into a fierce election campaign that would prevent the government from doing any serious work on pensions or the budget. Germany's mighty Bundesbank is said to have plans to prop up the lira, but it doesn't want to move until the political picture clears.

DINI: *Politically weak*

FROM BOOM TO BUST? It has become a cliché to say that political turmoil does not matter in Italy. Fiat, the argument goes, will continue to export its cars, Pirelli tires, and Giorgio Armani suits, no matter what the rascals in Rome do. Indeed, Fiat, the biggest private employer in Italy, announced in late March that it was going to hire an additional 3,000 workers.

But the boom may quickly go bust if Italy doesn't muster the political will to prevent itself from being caught in a vicious cycle of devaluations, inflation, and interest-rate hikes. Already, the strongest inflationary pressures in years are building up, owing to increased prices of raw materials from oil to steel. Fiat had to raise prices on its new models in January. And labor is expecting big wage increases this summer to compensate for an inflation rate that has more than doubled, to nearly 6%. If Italy's fractious politicians don't work out a modus vivendi soon, the comparisons with Latin America might turn out to be right.

By John Rossant in Rome

GLOBAL WRAPUP

TOKYO GAS ATTACK

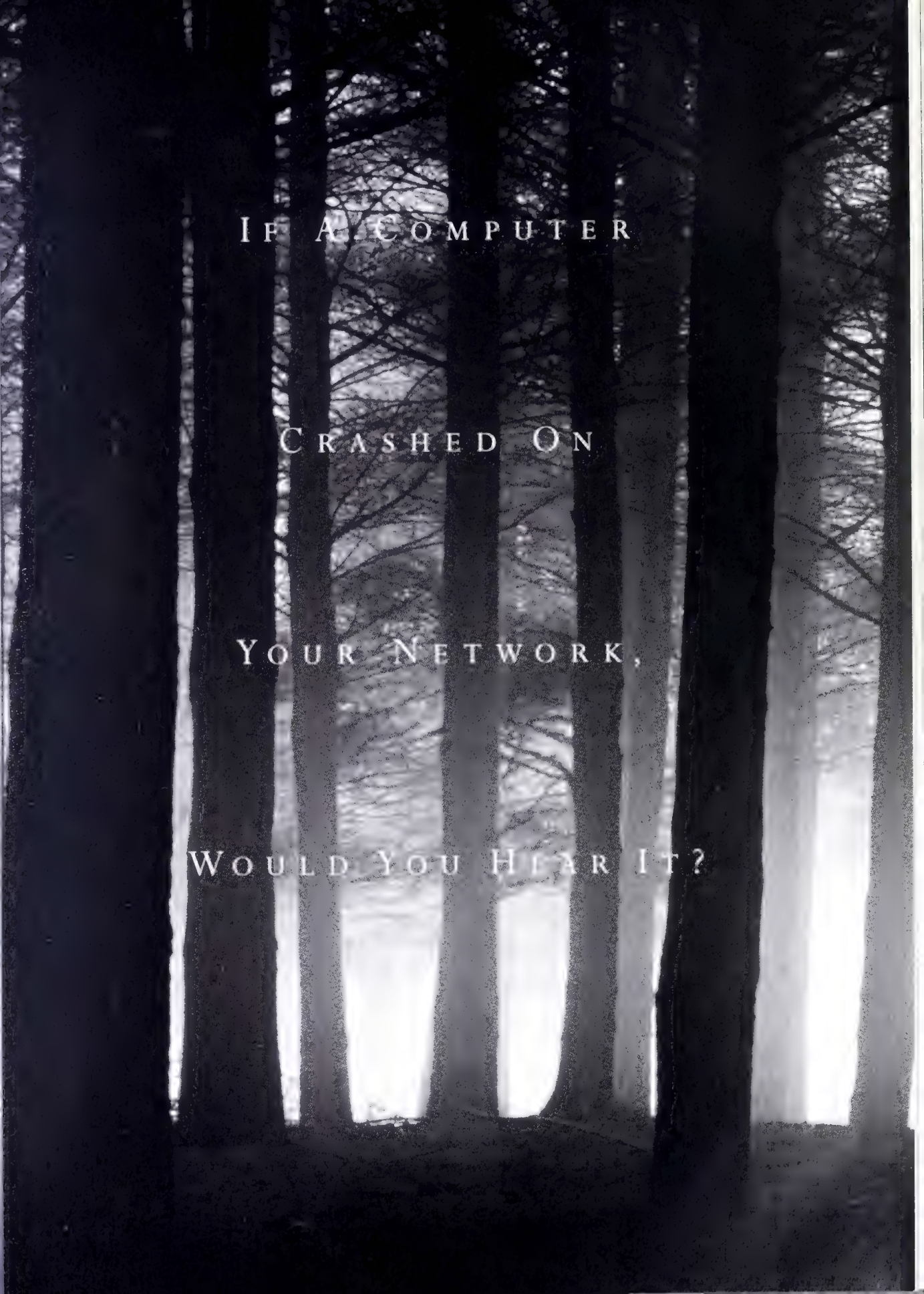
▶ Two days after terrorists spread nerve gas through Tokyo's subways, police were focusing on a possible culprit. In massive raids on 25 locations of the fringe Buddhist-Hindu sect Aum Shinrikyo, investigators found substantial amounts of a chemical used in the Mar. 20 attack. The group of about 10,000 believers has few known political aims but has gained notoriety for purportedly engineering the disappearance of some of its enemies and preventing followers from defecting. Aum Shinrikyo has not been formally charged with a crime.

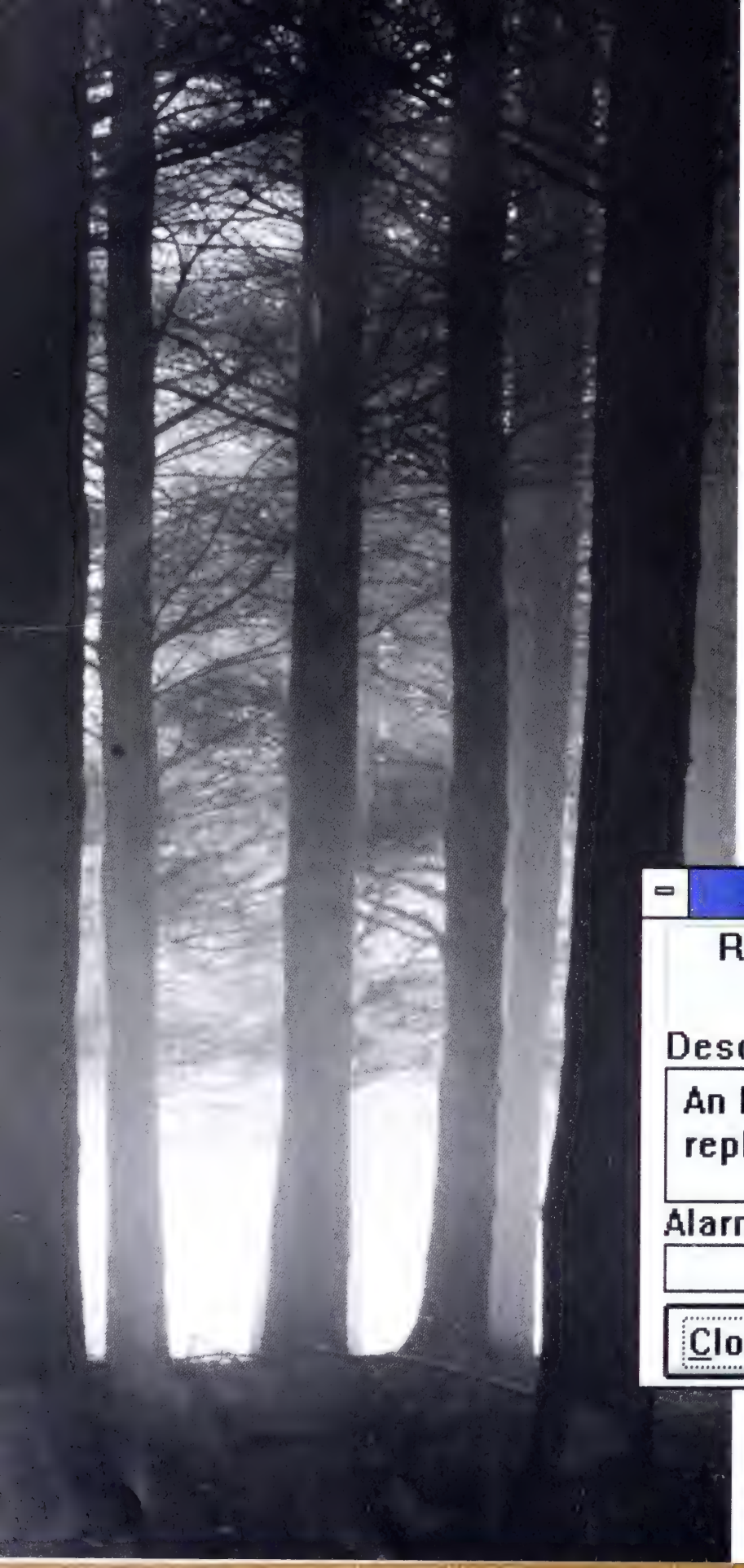
BOMBAY FIASCO

▶ Just when analysts were predicting that uncertainty shrouding China as it awaits Deng Xiaoping's death would prompt a massive flight of funds to India, that country's premier stock exchange choked. The Bombay Stock Exchange closed for nearly a week in March because of price-rigging and a broker's default. This is not the first time problems have paralyzed Indian exchanges. The country's trading and regulatory systems have a long way to go to catch up with more sophisticated emerging markets.

TURKEY INVADES IRAQ

▶ In its biggest show of force since the 1974 Cyprus war, Turkey rushed 35,000 troops into northern Iraq to try to wipe out Turkish Kurdish rebel bases. The U. S., which apparently signed off on the move, sees it as a way of putting pressure on Iraq's Saddam Hussein. The hope is that the Iraqi military will bridle at seeing the Turks push into Iraqi territory.


If A Computer
Crashed On
Your Network,
Would You Hear It?



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An IntelliSafe Hard Driv
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Alarm Details

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NOT IF

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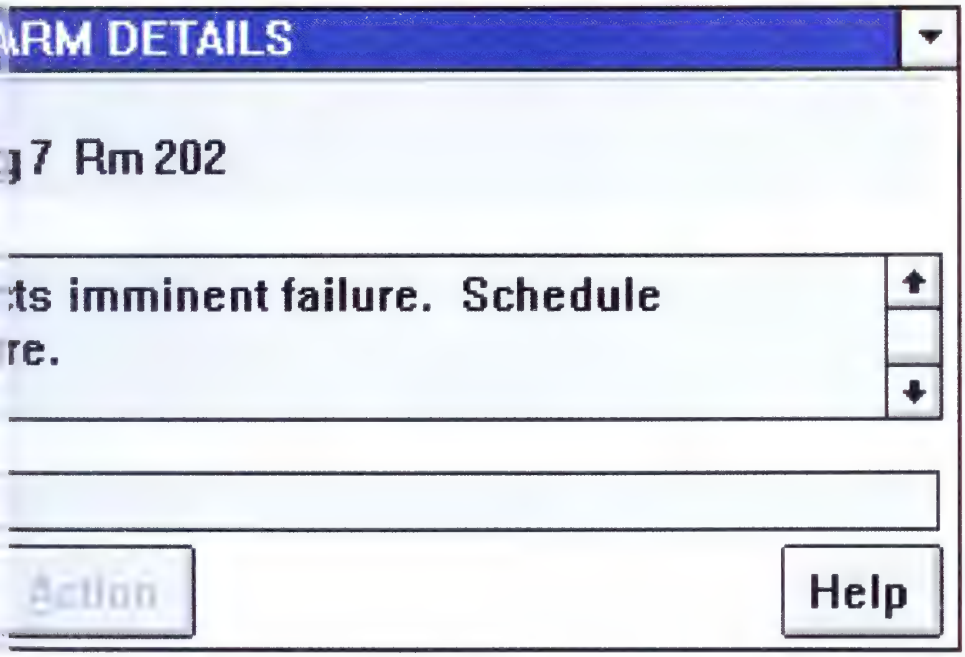
HAPPENED.

Introducing the new Compaq Deskpro



COMPAQ

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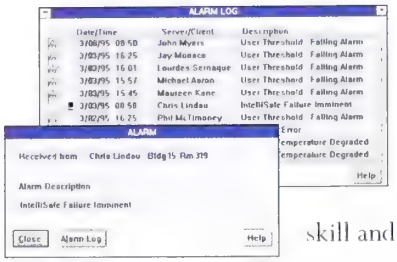

Managing computers on a network requires knowledge, skill and a bit of intuition. Okay, a lot of intuition. Somehow, you have to know what's going to happen. Before it actually happens.

Wouldn't it be great if you had just a little help? A crystal ball? A sixth sense, perhaps?

Funny, we were thinking the same thing. Which is why we built the new Compaq Deskpro.* A computer that can actually send a report of its status directly to the desk of the network administrator.

Have Computers Become More Human? Well, This One Can Tell You Who It Is, What It's Doing, And How It Feels.

Imagine being warned before a hard drive on another floor (or another city) seized up. Or taking a complete PC inventory right from your desk. (Certainly not the kind of cooperation you'd expect from a machine.)

We call it Intelligent Manageability. You'll likely call it "I'm glad someone finally thought of that."

How do we know? Maybe it had something to do with intuition.

COMPAQ

Research proves what you've known all along: only 20% of the lifetime cost of your company's PC's is the initial cost. The other 80% comes from all the things you do to manage them—like configuring, servicing, upgrading and just keeping track of who's got what. Isn't it time someone found a way to change that?

Asset Management 101. Our newest Compaq Deskpro is the first PC that's as concerned about cutting costs as you are. It all starts with the Intelligent Manageability we mentioned a page ago: a Compaq-designed combination of hardware and software that gives you a new level of control over your networked PC's.

Until now, taking stock of your PC assets has always required you to physically visit your computers one at a time. At every stop, you'd have to examine the PC, take serial numbers, check software, open it up and take a look inside. It's a process that could literally take days.

The new Deskpro changes that. Working closely with the leading companies in the world of LAN management, we built in some powerful features that can be tapped by their new software tools.

And the result is stunning: Now, as network manager, you can look into a Deskpro PC anywhere on the network to take inventory. You can retrieve hardware specifications, including make, model and serial number for the PC, hard drive and monitor, and revision numbers for the system board and ROM. You can also identify system software and drivers.

It's not only good knowledge to have. It makes the job of maintaining and updating PCs vastly more simple.

Fire prevention. When people decide to stop working for you, they usually have the courtesy to give notice. Computers, on the other hand, seem to enjoy the element of surprise.

Again, Deskpro will be changing things. Its Intelligent Manageability actually alerts the user to critical potential problems before they can turn into real ones.

Every time you power up the new Deskpro, its IntelliSafe™ hard drive conducts its own diagnostics. If any of its performance parameters has fallen below acceptable standards, the user is notified. So instead of responding to an emergency, you have ample time to take corrective action—replacing the drive at no expense under the Compaq Pre-Failure Warranty.

In addition, our Environmental Fault Protection constantly monitors the internal temperature of your Deskpro to make sure it isn't working under conditions which might imperil your valuable data.

Networking is in our blood. Because setting up a personal computer on a network has turned into one of the most time-consuming pastimes in corporate America, the new Deskpro was built to streamline the process.

Right out of the box, it's configured for your network, with a 32-bit PCI Ethernet NIC or an IBM Token Ring adapter

COMPUTERS THAT TAKE CARE OF THEMSE

Introducing the latest line of Deskpro computers

ready installed. The drivers are ptimized and industry standard onnectors are in place. And with its mple configuration tools, Deskpro elps reduce the complexity of setting p desktop network software.

Inder the hood. The thing that makes ur Intelligent Manageability most ppealing, of course, is the fact that 's built into an enormously powerful nd efficient computer.

With Deskpro, you can choose our processor, from a DX2/50MHz o the most powerful Pentium. And

of built-in Enhanced Business Audio.

Open and accessible. Needs change, goals change and people change. The good news is, a Deskpro computer can change every bit as quickly.

It opens without any special tools. The system board slides out, making it easy to upgrade the processor or add extra RAM. The PCI expansion slots are easily accessed. And the drive cage swings out to make hard drive upgrades painless.

Plus, the Deskpro system board utilizes Flash ROM technology, which

single Deskpro probably won't finance your retirement villa, but the savings from many machines over many years should have a nice effect.)

And when Windows 95 becomes available, Deskpro will make the job of managing your company's network of PCs even easier.

Using new management software tools provided by Compaq and our LAN industry partners, you'll be able to effectively monitor the health of all your networked Deskpro PCs—including the ones hard at work in

? THIS COULD TAKE SOME EXPLANATION.

very model delivers the enhanced erformance of Compaq's new riFlex™/PCI architecture. In fact, n our latest crop of Deskpro PCs, igher performance is something you an literally see and hear.

Thanks to PCI local bus graphics, ou get crisp, responsive graphics ven in everyday business applications. Select 586-class Deskpro models are vailable with higher-performance /RAM graphics.)

In multimedia models, you get he speed of our new QuadSpeed CD-ROM and the CD-quality sound

allows you to make future upgrades at the board level simply by running a software utility.

With the task of upgrading a PC reduced to minutes, you can allocate your time to more lucrative pursuits.

Future dividends. And then there are the benefits your business will be reaping down the road.

Since all Deskpro models have been designed with built-in power management features that meet the EPA's stringent requirements, they can actually consume less power.

(The savings in a month from a

your outpost six time zones away—without having to leave your desk.

You'll be able to configure your Deskpro so that if IntelliSafe hard drive failure becomes a possibility, it will send you a distress call across the network. Or automatically safeguard its data on a tape backup.

You'll even be able to have Deskpro send remote notification if it should detect potential problems with its built-in network interface card or internal operating temperature.

But then, what do you expect from a computer that takes care of itself?

Introducing the new Compaq ProLinea

The original premise was simple: make a powerful, yet affordable, computer that doesn't come with all the headaches normally associated with the word "value." And in creating the latest Compaq ProLinea®, we built on that premise—by taking the original apart.

We examined it from top to bottom, from the inside out, looking for ways to improve it. Looking to see what new technologies we could add.

The Latest ProLinea Has An Impressive Save Feature: It'll Save You Money, Save You Time, And Save Your Sanity.

In the end, we came up with more than a few improvements. Making ProLinea even harder to distinguish from more expensive machines. The fastest processors. Easy upgradability. Simplified maintenance. Features that make it easy to live with on the day you install it, and for years to come.

It all raises ProLinea to a completely new level. (Of course you'll still find the price within reach.)

And that should certainly put your mind at ease.

COMPAQ

Traditionally, the phrase "better value" has always meant someone's cut corners to give you a better price. At Compaq, however, we like to take a different approach.

The result is the new Compaq ProLinea: a family of computers that not only offers affordable prices, it pushes technology many steps ahead. Twelve, to be exact:

Number One. Our first improvement is something you'll notice before you even buy a ProLinea. You get to choose the processor you want—from very fast (486DX2/50MHz) to blindingly fast (Pentium/100MHz). This way, you don't have to buy more performance than you really need. And it's designed so that you can upgrade whenever you want.

Number Two. You may be familiar with the new standard bus architecture called PCI. Basically, it improves upon the previous technology by expanding the data path to 32 bits and radically speeding the flow of information to expansion cards and peripherals. And guess what: Compaq has already enhanced this standard with our new TriFlex/PCI architecture—which is built into every ProLinea model.

Number Three. The PCI architecture also boosts the performance of the graphics subsystem. So even if you're working with general productivity applications like word processors and spreadsheets, you can enjoy a crisp, responsive high-resolution display. If your uses demand more, select 586-class models are now available with higher-performance VRAM graphics.

Number Four. Forgive the acronyms, but there's also a PCI local bus IDE interface. This not only pays off in improved disk performance, but it supports up to four storage devices. Which means you can easily add another hard drive, tape backup or CD-ROM drive when needed.

Number Five. As long as we're on the subject of CD-ROM, multimedia ProLinea models now come with our new QuadSpeed drive (along with Enhanced Business Audio). This gives you faster access to the rich and vast references available on CD-ROM today, from national directories to archives of business publications.

Number Six. However large a hard drive may be, there are those who take it as a personal challenge to fill it up. With the new ProLinea PCs, however, we're determined to make that as difficult as possible. You can choose a configuration with a disk capacity of 270MB, 420MB or 720MB. Any of which should put you well ahead of your burgeoning files.

Number Seven. ProLinea comes with 8MB or 16MB of RAM, depending on the model. And you can easily expand it to 136MB or 192MB—enough to take advantage of new 32-bit operating systems, run several programs at once and work with spreadsheets the size of Madison Square Garden.

Number Eight. ProLinea is filled with features designed to make your life

Like Most PC Buyers, You'r "Better Value," So We've Clever

sier. It's not only pre-loaded with an tensive online help system and tomated setup software, it now has designed documentation to help u quickly pinpoint information. It's o optimized to run new operating stems like Windows 95, which will ake your future computing easier ll. Every model supports the Plug-d-Play standard that will bring a w simplicity to the process of ding expansion cards. (If you add new network interface card, for ample, ProLinea will sense the ange and automatically reconfigure software to support it.)

umber Nine. You decide exactly how pandable you want your ProLinea be. You can select a desktop model th three expansion slots and three pansion bays or a model with four each. Or you can choose a five-ot, five-bay mini-tower model at offers maximum expandability ithout taking up too uch of your space.

Number Ten. The new ProLinea PCs have been designed so you can get inside without any special tools. The system board slides out to accept extra memory or a processor upgrade. The hard drive cage swings out so you can swap disks without reaching into inaccessible, finger-bruising areas. And when you snap in a new Compaq hard drive, you won't have to configure any enigmatic jumpers. When you connect the cables, the settings have the good sense to take care of themselves.

Number Eleven. The ProLinea system board now incorporates Flash ROM technology. That means basic system ROM can be updated without major PC surgery. If future system updates should ever become necessary, installing them will be no more difficult than running a software utility and clicking a few buttons on the screen.

Number Twelve. And what about the environment? Using a ProLinea won't by itself repair the ozone layer, but it's certainly a step in the right direction. For the sake of the atmosphere—and everyone who breathes it—our PC manufacturing process is completely CFC-free. And every model is now Energy Star-compliant, which means less wasted energy for the planet and less wasted money on your power bill.

These are the improvements that define our approach to value. (We think you'll agree, it's a lot more rewarding than cutting corners.)

In fact, our new ProLinea does an excellent job of expressing a core belief at Compaq: That is, the smartest way to build better value is to build a better computer.

OBABLY SICK OF HEARING SGUISED IT AS 12 IMPROVEMENTS.

Introducing the latest line of ProLinea computers

As with all Compaq PCs, Deskpro and ProLinea

are covered by our free 3-year limited warranty. For more

information on our full line of Compaq desktop PCs, call us at

1-800-345-1518 or visit our Web site at www.compaq.com

In Canada, we can be reached at 1-800-567-1616

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OVERNMENT FINANCE

ARE BLOCK GRANTS THE ANSWER?

ump-sum payments might ave federal dollars, but at he local level, services may uffer and budgets rise

t sounds like a piece of federal budgeteering arcana. But in the Republican-controlled Congress and in statehouses around the country, the ock grant has become a battle cry. ager to cut the federal budget and ease the states, members of Congress ave proposed that an array of aid pro-ams to the states be folded into larg-, broad-purpose block grants. Many overnors are also urging that federal onies no longer be "micromanaged" d that state administrators be given a ance to put federal dollars to work ore efficiently—to "do more with less."

Does the widespread adoption of ock grants make economic sense? The swer is yes, as long as Americans are illing to accept that fiscal discipline ill ultimately mean lower standards d fewer services from their state and cal governments. But they shouldn't xpect block grants or any other bud-et-cutting vehicle to work economic iracles.

Today, 15 block-grant programs are existence, which account for 7.5% f total federal aid to the states. fine of them are the legacy of resident Ronald Reagan's push r a new federalism, and an analy-s of those programs showed that ad-inistrative savings of 2% to 5% were chieved, says George E. Peterson of e Urban Institute in Washington. ince federal grants were cut by 12%, owever, the states had to find savings lsewhere. In some cases the states ere able to kick in more bucks, but in thers, standards and services eroded, e says.

Moreover, the block-grant experience date has been fairly limited, and what being debated in Washington is on n unprecedented scale. Not only are a umber of the nearly 600 federal grant rograms to the states likely to be rolled into block grants but the bigger, open-ended entitlement programs such as Aid to Families with Dependent Children and Medicaid are also likely to be turned into block grants. When that happens, Congress will cut funding. Right now, these programs match federal dollars to state dollars, with some especially poor states getting as many as four federal dollars for every dollar they spend on welfare. Already, a proposal to cut funds for school lunches and roll the program into a block grant has drawn fire.

The sudden removal of matching funds means that as demand for services grows, states will have to make up the federal match themselves, change the level and quality of services, or do both. The likely outcome, says Peterson, is "spiraling parsimony, as every state scrambles to avoid becoming a welfare haven that treats the poor more generously than its neighbors."

WAIVING WAIVERS. Block grants may not afford the states as much flexibility as they anticipate. For one thing, no block grants will give governors carte blanche as to how to spend federal monies. Indeed, a recent General Accounting Office study found that over time, new funding constraints were added to the 1981 block grants because of concerns that the states weren't meeting national needs.

Still, many states may be content simply to operate under fewer constraints than before. Wisconsin officials, who hope to cap off 10 years of welfare reform by eliminating all AFDC payments by 1997, traveled to Washington to get 149 waivers from three Presidential Administrations to implement 14 different welfare experiments. A welfare block grant would eliminate the need for such waivers.

Coping with the cutbacks in federal dollars may also prove more difficult than proponents of block grants contend. While some states were able to make up the shortfall by ramping up their own spending in the early 1980s, it's not clear that will happen this time around. Most states are now running surpluses, but slower growth means those surpluses will soon "melt away," observes Steven Gold, director of the Center for the Study of the States at the State University of New York at Albany. Governors who have promised or enacted tax cuts will have to contemplate tax increases, and more funding burdens may be pushed down to localities, says Gold.

But across the country, the overwhelming mood is in favor of budget cuts and tax relief, even

THE BATTLE OVER BLOCK GRANTS

WHAT PROPONENTS SAY:

- States will gain flexibility
- Federal funds will be cut or capped
- States will realize cost savings

WHAT OPPONENTS SAY:

- Standards will be eroded
- State and local finances will come under further pressure
- Savings will be achieved at the expense of aid recipients

DATA: BUSINESS WEEK

AMY HOGAN

at the local level. And in some states, such as Wisconsin and Oregon, local property tax relief is forcing state governments to shoulder a greater share of the K-12 education budgets. This means that already scarce resources in state budgets must be reallocated toward education. And that leaves less for social programs that the federal government once helped to fund.

Most analysts doubt that the states will pick up the slack. If states have to pay a full dollar to increase spending by a dollar on programs for which the federal government once offered matching funds, then they have no incentive to devote more resources to the programs, says Robert D. Reischauer of the Brookings Institution, who until recently was the head of the Congressional Budget Office. During recessions, when demand for social programs inevitably picks up, there will be even more of a squeeze on resources.

SLIPPING STANDARDS? Still, many states believe they can meet the challenge of new spending limits. But that almost certainly will require a change in standards. How this is accomplished can make the difference between judicious reform of social programs and wholesale evisceration of those programs. Capabilities of officials vary across states, as does the inclination to make programs effective. Wisconsin's welfare reforms, for example, required more up-front spending on training and job placement in order to secure long-term savings.

Not all states will favor such a strategy. When federal day-care requirements were eliminated as part of one of the Reagan block grants, the state of Texas managed to care for about 16% more children in day care at almost 20% less cost to the state. But Texas altered the minimum ratios of staff to children, allowing 1 staff member to care for as many as 13 toddlers. The federal standard had required that 1 staffer care for no more than 4 toddlers.

If block grants are widely adopted by Congress, Americans will see a range of responses across states as standards and eligibility requirements change. The effects may not seem so dramatic in 1995 or 1996, but they are sure to be in later years as the effect of caps on federal grants begins to bite. The unanswered question, says Gold of the Center for the Study of the States, is whether the American public will tolerate a shrinkage in social services, no growth in school budgets, higher state university fees, and an overall diminution of services. If they won't, then block grants may come to be regarded as one more failed recipe for economic reform.

By Karen Pennar in New York

MANAGEMENT

MANAGER SEE, MANAGER DO

Research on chimps offers clues to human power plays

How did Newt Gingrich climb from lowly congressional backbencher to Speaker of the House in a mere five years? Part of the answer may lie in the work of Dutch primatologist Frans de Waal, who studies how power is won and lost within a large community of chimpanzees.

Gingrich has been an avid follower of de Waal's work for years. He has even placed de Waal's *Chimpanzee Politics: Power and Sex among Apes* on his recommended reading list for freshmen Republicans, along with better-known texts such as the Declaration of Independence, the U.S. Constitution, and the *Federalist Papers*.

What secrets of power has Gingrich gleaned from our simian cousins? In short, how to win power by forming tactical coalitions and mounting fierce psychological attacks on those blocking the way. *Chimpanzee Politics* chronicles a three-month power struggle in which Luit, an ambitious male chimp, waged a carefully crafted campaign to overthrow Yeroen, the autocratic established leader. To pull it off, Luit played the populist by grooming lower-ranking chimps. He also punished Yeroen's supporters and refused to greet Yeroen with the polite submissiveness usually accorded his rank.

It's a strategy Gingrich aped in his assault on former Speaker Jim Wright. For more than a year, Gingrich attacked Wright's ethics while cultivating allies. His campaign gained momentum as the widely disliked Wright began to crumble under pressure. Wright resigned in 1989 and the once obscure Gingrich was established as a major power. "It made

DE WAAL: *"Corporate life is a male hunting venture"*

ıgrich a big man in Re-
olican politics," says John
Barry, whose *The Ambi-
n and the Power* chroni-
d Gingrich's tactics and
ight's downfall. "Every-
e loves a winner, and he
ıowed] that the way to
ıt these guys is to just tear
m up, rip them up, not be
gentleman anymore." Gin-
ch declined comment.
While Gingrich has found de
ıal's work instructive in the
itical arena, the scientist's ob-
vations may be even more
olicable to corporate behavior.
orporate life is a male hunting
ıture," notes de Waal. "They
nt for money."

LE ANIMAL. So what lessons
m chimp behavior hold true in
porate life? The CEO shouldn't
too high-handed, for one thing.
ominant males are always paranoid,"
Waal says. But they can't allow
emselves to be too aggressive or im-
ious, because then their lieutenants
vote themselves to finding a chance to
rid of them. Loners are always vul-
rable, because they have no one to
port them in times of crisis. And for
lications of who is holding and who is
ing influence, watch whose jokes are
ghed at and whose ideas get ignored
meetings. The chimp analogue? If
v-ranking animals fail to heed the
minant male's displays of hooting and
arging, it's a sign
s losing status.
So maybe the law
the jungle isn't
h a far cry from
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e back in de Waal's

APING THE PRIMATES
Gingrich, a devotee of de Waal, toppled Speaker Wright in 1989

native Netherlands. He now conducts his research at Emory University's Yerkes Regional Primate Research Center, a leafy, 117-acre compound that is home to thousands of hooting macaques, rhesus monkeys, bonobos, and chimpanzees. Human contact is kept to a minimum, and no one, not even de Waal, dares to venture among the adult chimps, which are often ferocious and unpredictable. Eschewing the air-conditioned faculty offices on a nearby hill, de Waal works in a hut on stilts that juts over the wall of the chimp compound. Part of the hut's floor and one wall are made of clear plastic, so that de Waal won't miss any of the soap-operatic doings below.

De Waal's current group is led by Jimoh, a smallish male who has a rather tenuous hold on power. Since Socko, an adolescent, will wage his own challenge to Jimoh's leadership in two years or so, Jimoh keeps a close eye on him. But Socko is already busy laying the groundwork for his big campaign. He takes pains to establish his rank above others in the colony, genially plays with the infants, and reinforces his close relationship with Peony, the dominant female. In addition, Socko tests his bravery by trying to mate on the sly—a strict no-no as far as Jimoh is concerned.

But since Jimoh has never had a very strong grip on his role as leader, his subjects exert considerable control over what he can get away with. If he were to mistreat an infant, for example, the outraged masses would quickly move to keep him in check. This "shows a limit to his dominance," explains de Waal. "He's controlled by a coalition from below." Like any leader who's not a despot, "you have to make deals."

ORGAN GRINDER. Since *Chimpanzee Politics* first appeared several years ago, de Waal has focused his studies on the aftermath of aggression and power struggles. Since no community can exist in a constant state of upheaval, de Waal is intensely interested in how a new leader establishes peace. Doing so is crucial to any leader's remaining in the top spot for long. The most effective peacemaking tactics involve repairing relations with the lowest-ranking members of the group and courting a few strategically placed, higher-ranking individuals as allies.

Gingrich's attention both bemuses and alarms the primatologist. De Waal has never met Gingrich but warns that the lessons of his own work with chimps could lead an overly ambitious person to brash acts. The chimps "can be horrible to each other," de Waal says. "I don't know if I should be flattered or worried" by Gingrich's interest.

He adds that the new Speaker would do well to pay more attention to peacemaking and coalition-building than naked aggression. It's valuable advice, especially considering the fate of Luit, the hero of *Chimpanzee Politics*. After the book went to press, a restive Yeroen, the deposed leader, hatched a dark plot with a strong young ally. One night, they ambushed Luit, savagely murdering him—ripping off his toes and castrating him. The murder was so rare and gruesome that it still pains de Waal to speak of it.

Gosh, how awful. Does Newt know?

By Elizabeth Lesly in Lawrenceville, Ga.

MANAGEMENT SECRETS OF THE CHIMPS

Five tenets of corporate life, according to primatologist Frans de Waal:

- The top executive is always paranoid—and with good reason.
- Being too aggressive results in a leader's eventual downfall. Alienated subordinates exploit any opportunity to be rid of the dictator.
- Loners are by definition powerless, since they lack a coalition to back them in times of crisis.
- Meetings are a forum for testing the strength of coalitions. Watch whose jokes get laughed at and whose ideas are ignored.
- After any contretemps, the warring parties need to mend fences to carry on with the business of the day. But the person who initiates the reconciliation is the one who needs it most.

TED MORRISON

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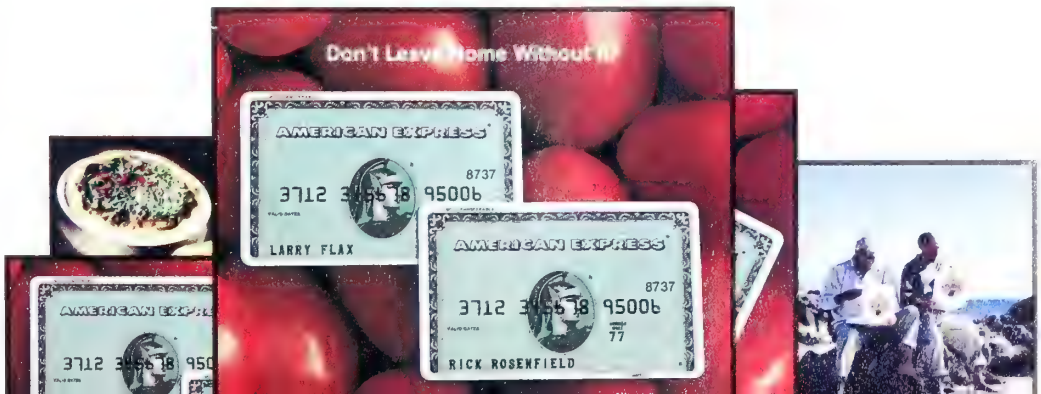
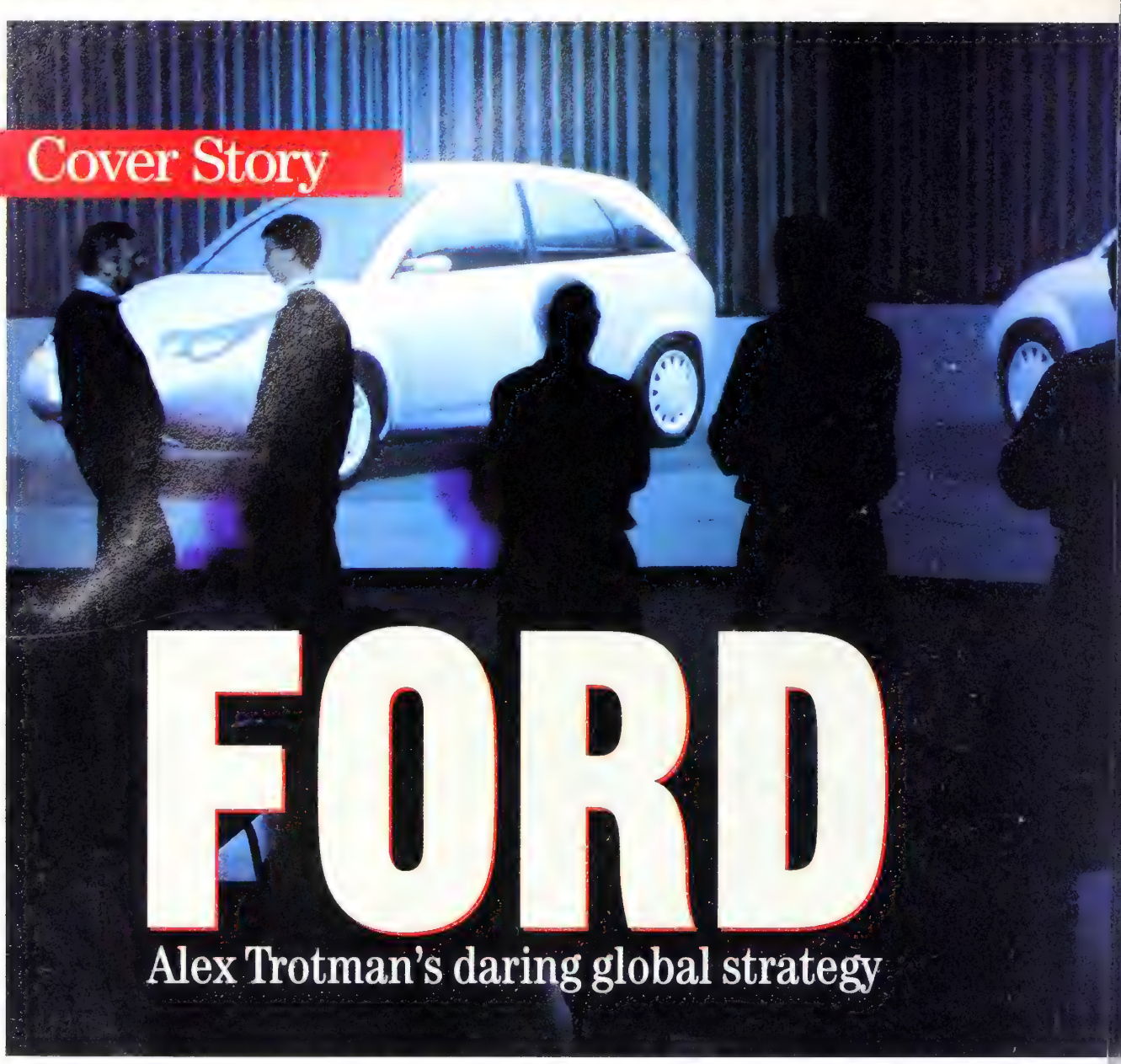
Larry Flax
Rick Rosenfield
Founders, California Pizza Kitchen





FORD

Alex Trotman's daring global strategy

Waiting backstage at February's Chicago Auto Show to introduce the all-new Taurus station wagon, Ford Motor Co.'s dapper chairman, Alexander J. Trotman, reviewed the cue cards for his speech with the methodical discipline of a former RAF navigator, then set them aside. He waved off an aide who offered a copy of his speech to take onstage, saying: "I don't stick to the script, anyway."

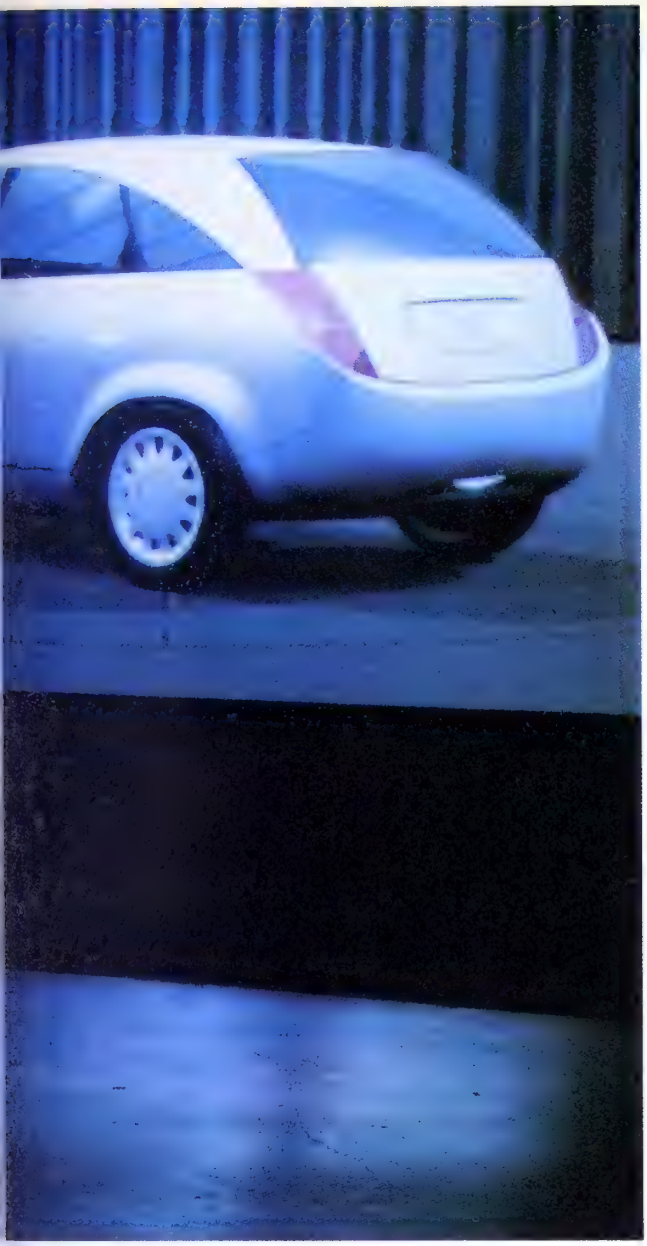
He never has. Although Trotman, 61, has a master's degree in business, he skipped college. In 1969, when Ford senior management refused to transfer him from Britain, the English native bought his own ticket to the U.S. and talked his way into a job at Ford headquarters in Dearborn, Mich. (page 100). So a bit of skepticism was in order when, after Trotman was named chairman-to-be in October, 1993, he proclaimed: "The top priority is to keep doing what we've been doing."

Trotman has since not only torn up the script, he has rewritten the book. Three weeks after being named, the future chairman held a meeting of senior managers at Ford's London office. As they debated merging Ford's separate North American and European engine and transmission units, Trotman, unable to speak because of laryngitis, scribbled notes. Slowly he planted an idea: Why stop at engines and transmissions? Why not tear apart Ford's regional structure and combin auto operations into one single global company?

The performance was vintage Trotman. The no-nonsens manager clearly knew where he wanted to go but issued n top-down commands. Instead, Trotman prodded his manager to his point of view. But by day's end, the outcome h achieved was no less bold: The meeting marked the birth Ford 2000, a sweeping remake of the world's No. 2 aut maker that Trotman launched in January.

The pressures driving Trotman's effort to reshape Ford ar painfully obvious: With completely independent auto uni designing and selling their own vehicles on each side of th Atlantic, Ford has long paid a price in duplicated effor waste, and high costs. Top-heavy and bureaucratic, For spends far too much time—and money—designing new car

By combining the North American and European uni into a unified company, Trotman hopes to transform Ford in a far more nimble, efficient competitor. Global product tean will now design cars to be sold around the world. But Tro man's ambitions for Ford 2000 go well beyond cost-cuttin



TROTMAN HAS BIG GOALS FOR FORD 2000...

GLOBALIZATION In January, Trotman merged Ford's European and American auto operations; next year, South America and Asia join in. By decade's end, the global remake could slash $3 billion from Ford's annual costs by eliminating duplication in product development and letting Ford turn to fewer, global suppliers.

CUTTING BUREAUCRACY By eliminating 20% of top managers, instituting "no-fault" meetings, and creating multifunction teams to design and market cars, Trotman is breaking Ford's once-rigid bureaucracy. New car projects are now O.K.'d in less than a month.

LOOKING TO NEW MARKETS With new ventures under way in China, Vietnam, India, and Poland, and a restructuring in South America, Trotman is counting on Ford's global approach to fuel sales in fast-growing emerging markets.

...BUT PLENTY OF CHALLENGES REMAIN

AVOIDING INFIGHTING Europeans and Americans must now share power and learn to work more closely together. With a slew of model redesigns coming out and signs of a market slowdown, Ford can't afford paralyzing internal power struggles.

MAKING IT WORK Ford's first try at a global car took 6 years and $6 billion to build. Trotman must prove that working globally will speed up—not slow down—product development and won't produce a bland "world-mobile" that pleases no one.

PRICING RIGHT Ford has continued to raise prices, leaving it more dependent on rebates and leasing deals. If a slowdown comes, Ford risks pricing itself out of the market.

CATCHING UP Ford may be speeding efforts in developing markets, but it trails Japanese rivals in Asia and others in South America. With all major carmakers eyeing growth in those markets, it's in for a tough fight.

HE BIG PICTURE
ife-size video view
f a small-car design
elps engineers
ustomize cars for
iverse markets

He's counting on the shift to a global organization to prime Ford for growth in emerging markets. Trotman's vision, in short, amounts to a massive overhaul that is shaking the 91-year-old company to its roots—and that has placed Ford at the forefront of moves by U.S. companies to boost performance by running far-flung worldwide operations in a far more coordinated manner. "In terms of global integration, this puts [Ford] among the leaders now," says George Yip, an associate professor at UCLA's Anderson Graduate School of Management.

Yet making Ford's two independent units operate as one will be no easy task. "Ford 2000, in a sense, is the largest merger in history," says Morgan Stanley & Co. analyst Scott Merlis. "Ford of Europe and Ford North America together [are] a $94 billion company, and RJR-Nabisco was only $24 billion in revenues." Like any merger, this one brings risks. Asking designers to take into account the needs of diverse markets may slow Ford's new-car development process rather than speed it up. And cars designed to satisfy drivers around the world may end up pleasing no one.

At the same time, a transformation of this scope poses huge management and morale challenges: Vast numbers of employees will find themselves in new jobs with new bosses. Any delays could be devastating—leading some to question Trotman's very premise. "Why on earth would you want to create these gigantic earth-spanning organizations?" asks a senior executive at one Detroit rival. He says the cumbersome decision-making in a big organization often wipes out savings created by global products.

While Ford frets about internal issues, problems loom. With the U.S. auto market showing signs of slowing, now is no time for navel-gazing. "The second we get our organization focused on how we organize ourselves instead of on our customers, we're in trouble," says G. Richard Wagoner Jr., head of General Motors Corp.'s North American automotive unit.

At first blush, Trotman seems to have chosen an odd time to fix Ford. The company reported record earnings of $5.3 billion in 1994, up 110%, on record revenues of $128 billion, an 18% gain (chart). With red-hot models such as the sporty Mustang, the midsize Taurus, and the four-wheel-drive Ex-

plorer fueling sales, Ford's 25.2% of the U.S. market is held back only by its capacity: Its plants, among the most efficient in the U.S., ran at 111% of straight-time capacity in 1994. Ford's European operations, excluding Jaguar Motors Inc., swung into the black last year with $388 million in profits on sales of $22 billion. Ford's Financial Services Group is also solidly profitable.

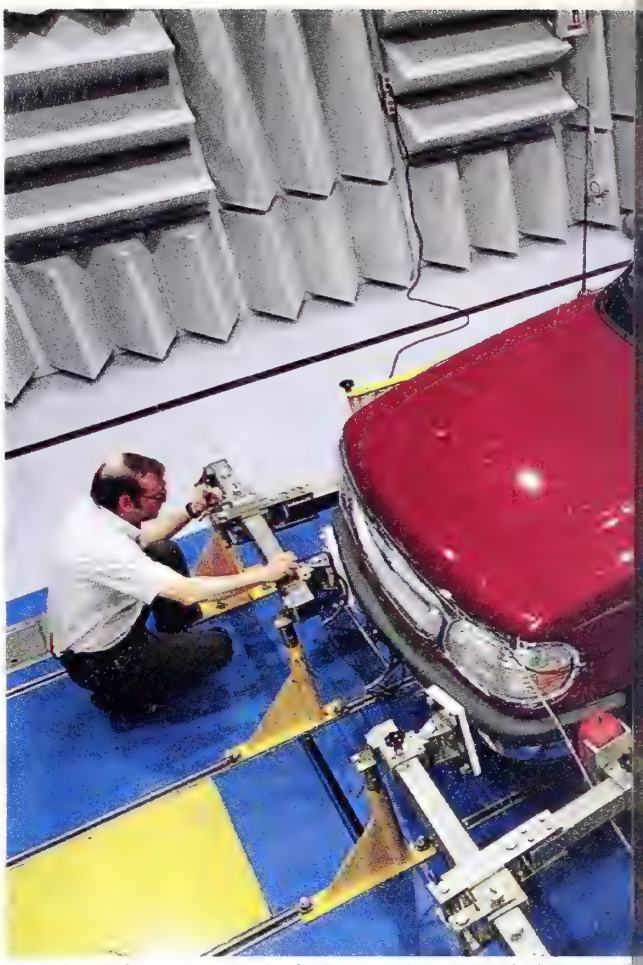
But the glitter of those figures obscures some real problems. Ford, Trotman knows, could do better. Rivals are more efficient at getting new models to market faster. The Taurus, for example, took five years to redesign, while Japanese competitors redid competing models in four. And Chrysler gave birth to the Neon subcompact in just 31 months. Chrysler is also far more profitable, earning a sparkling $2,110 operating profit on every vehicle it sold last year; Ford made $877. Chrysler's pretax profit margin on autos, at 11.6%, was twice Ford's 5.4%. And Toyota is far more efficient, churning out 37 vehicles per worker to Ford's 20.

Better to fix those problems now, Trotman figures, than during the next downturn. He has some breathing space—most forecasters see car sales up modestly this year, with no drop until 1996. But the inevitable slump will magnify Ford's big weakness: poor white-collar productivity, mostly caused by high new car development costs.

TOP HEAVY. Much of the problem stems from the increased overhead costs of separate units in North America and Europe. A top-heavy bureaucracy that forced designers to seek endless approvals for new projects has also hampered Ford's efforts to get cars out faster. And Ford has lagged behind Chrysler and Japanese makers in money- and time-saving innovations such as having designers, engineers, and marketers work on teams together.

But the biggest problem is that Ford simply spends too much developing new cars. Having delayed spending on new engines and transmissions in the early 1980s, Ford is now playing catch-up. Since 1987, Ford's annual capital spending has risen 126%, to $8.3 billion, while Chrysler's has gone up just 98%, to $3.8 billion, even as Chrysler launched an aggressive array of new cars and trucks. And needless duplication of design efforts between the U.S. and Europe added more costs: Ford currently has six different four-cylinder engines in Europe and North America, although Ford admits two would suffice. The cost of developing a typical engine: $1 billion. Moreover, developing separate cars for both major markets adds to purchasing costs. By ending redundant design efforts and reaping the economies of scale inherent in buying from a smaller number of global suppliers, Trotman claims that Ford will slash $2 billion to $3 billion from costs by decade's end.

Besides saving time and money, Trotman is also counting on the global remake to help Ford push more aggressively into emerging markets. In the past, the needs of those markets have been overlooked. But with most of the world auto sales growth expected to occur in emerging markets the coming decade, Ford is speeding efforts abroad. In the months since Trotman became chairman, Ford has set three auto-parts plants in China, negotiated a sales offi and an assembly plant in Vietnam, built an assembly plant Poland, and taken an equity stake in an Indian carmaker. February, Trotman made his second trip to China. As the on one of the Big Three not building vehicles there, Ford bad wants a deal now being negotiated to build 150,000 midsi sedans annually. "You'd better get your passports up to da if you want to keep up with us," crows Edward E. Hage locker, president of Ford's automotive operations.



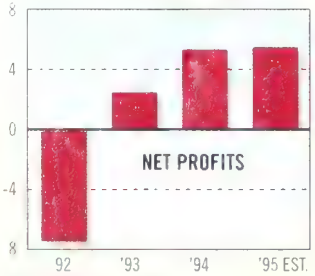
Still, those markets are incredibly competitive. GM is also the running for the sedan plant, and all the world's major au makers are angling for a stake in Chinese plans to develop fordable "family" cars. And already, Japanese carmake

FORD CARS AND TRUCKS ARE RED-HOT...

1994'S BEST-SELLING VEHICLES IN THE U.S.

1	F-SERIES PICKUP
2	CHEVY C/K PICKUP
3	TAURUS
4	HONDA ACCORD
5	RANGER PICKUP
6	E[illegible]
7	TOYOTA CAMRY
8	SATURN
9	EXPLORER
10	DODGE CARAVAN

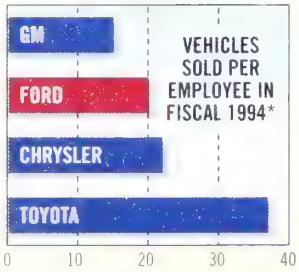
...FUELING RECORD EARNINGS...



▲ BILLIONS OF DOLLARS

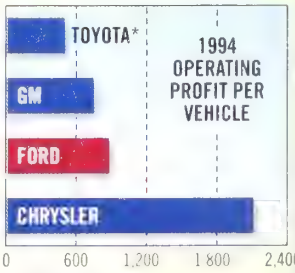
DATA: COMPANY REPORTS, J.P. MORGAN SECURITIES INC.

...BUT PRODUCTIVITY IS MEDIOCRE...



*INCLUDES EMPLOYEES IN AUTOMOTIVE AND FINANCIAL OPERATIONS

...AND PROFITABILITY ISN'T TOPS



▶ DOLLARS

*OPERATING PROFIT/VEHICLE FOR SI MONTHS ENDED DEC. 31, 199

SHAKE IT UP Preparing an Explorer for vibration tests at Ford's Advanced Engineering Center in Dearborn

ave stolen a march on Ford in Southeast Asia, while both GM nd Italy's Fiat are in high gear in Latin America. If Ford umbles in those markets, it risks losing its status as the orld's No. 2 carmaker.

Not that Trotman is content to be No. 2. At an October ieeting in Orlando, Trotman told Ford's top 2,000 managers iat it could snare 30% of the North American vehicle market id 15% of the European market "if we have the will to do ." He even says he wants Ford to land 5% to 10% of the apanese market. Add it all up, and it's clear that Ford is riving to replace GM as the world's biggest carmaker.

ASTED CHASE? Such goals may be good for revving up the oops, but rivals dismiss them as unrealistic. "Those figures e easy to talk about but hard to deliver," says GM President ohn F. Smith Jr. For Ford to reach 30% in the U.S., GM ould have to lose 1% every year for the rest of the decade, id Ford would have to snap up all of it, with none going to hrysler or the Japanese. As for Europe, Ford lost the No. 3 ot to GM in 1990, and Ford's share has remained roughly it, at below 12%, ever since. It's an even taller order in Jaan, where all imports combined total just 4.6%.

Rivals ask whether it's a goal even worth pursuing. "Why? hat's the value of being big?" asks Chrysler President obert A. Lutz. He argues that chasing market-share targets ist leads to "buying" sales with excessive incentives.

To some extent, Ford is already doing that. Although its aurus was the best-selling car in the U.S. in 1994, Ford abbed that slot in part by offering sweet leases in Deember to guarantee it wasn't beaten by Honda Motor Co.'s ccord. And it recently offered incentives to keep sales of its indstar and Aerostar minivans cooking. But Ford can't afrd to buy its way to a 30% share: The auto maker's fourtharter incentives came to a steep $860 per car, well above GM's $738—let alone Chrysler's $410.

Trotman asserts that Ford's future gains will come from churning out better cars at lower costs thanks to the restructuring. And he has balanced his call for growth with tough financial targets: He wants Ford's automotive operations to achieve an average 5% aftertax return on sales—across the entire boom-and-bust cycle. That would be no mean feat: Even amid 1994's record profits, Ford's aftertax return was only 3.6%, although Ford North America hit 4.2%. Says John M. Devine, Ford's chief financial officer: "The acid test for Ford 2000 is real simple. We have to improve our financial results, and we have to improve our competitive results."

How to get to Ford 2000 from Ford 1995? The restructuring has begun with the merger of the U.S. and European product-development operations. Ford has created five new "Vehicle Centers"—four in the U.S., one in Europe—each responsible for designing a different type of vehicle worldwide. Roughly 500 Americans have moved overseas to join the new European team overseeing small-car development globally. Meanwhile, an equal number of Europeans have come to Dearborn to design all of Ford's rear-wheel-drive cars and commercial trucks. Still, Ford will have to prove it can do better at merging product-development across the Atlantic than it has across the English Channel; it has yet to combine its car development centers in Britain and Germany.

It will take some time to see the impact of those new teams; new models designed by the vehicle-center teams won't hit the market until late 1997. But as those models arrive, the use of common parts and global suppliers will grow. That's where Trotman is counting on big savings. Currently, European and American cars have no parts in common. Trotman expects to win better deals as Ford buys larger numbers of parts from fewer global suppliers. Ford estimates that by cutting suppliers of goods other than auto parts—everything from machine tools to office supplies—from 50,000 today to 5,000 by 1997, for example, it will save $1 billion.

Trotman is also counting on a shift to product-oriented teams to improve productivity. He has jettisoned Ford's functional product-development structure, in which a brake engineer might temporarily be assigned to work on a new Taurus. Now, engineers are assigned permanently to one of the vehicle centers and will work closely in teams with designers and marketers to build products for individual countries.

To ease the transition, managers from both sides of the Atlantic also engaged in a massive reengineering project. Aiming to cut costs and to minimize cultural disputes over doing things "their" way or "our" way, some 500 Ford employees from different countries spent nine months last year at Dearborn examining and rewrit-

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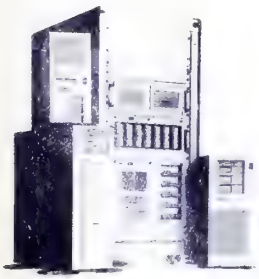

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UR COMPANY THE THING IT NEEDS MOST.

Fig. 1 Backbone

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ing the manuals on every job they did. In search of the most efficient practices, they compared how jobs were done in North America and Europe against benchmarks from outside Ford. One result: By breaking down the task of machining a new engine prototype into several stages that can be done simultaneously, Ford cut the time to get an engine from design to testing from 24 months to 100 days.

It was all part of a hierarchy-busting exercise Trotman launched to cut Ford's "coefficient of bureaucratic drag." Ford has long been a rigid organization, where managers could calculate their status by the size of their desks. Upon joining the ranks of the top 8,000 executives, they qualified for "a door, a rug, and a jug"—a private, carpeted office with a water pitcher on the desk. At ritualized meetings, managers pored over three-ring binders full of data.

Trotman has banned the binders and instituted "no-fault" meetings where managers can fess up to problems knowing that the problem, not the message-bearer, will be attacked. The changes seem to be taking hold: Just getting approval for a new-car project used to take up to 22 meetings over two months, says Jacques A. Nassar, Ford's head of new-vehi development. Now, the O.K. comes in less than a mont "There absolutely is less bureaucracy," says Allan R. Kamme er, the newly named head of Ford's Escort vehicle line. "V are getting a lot of things done more quickly now." To tr management ranks, Trotman also got some 400 out of 2,0 top managers to take early retirement.

CAR FREAK. That sort of streamlining looks easy next to t challenges posed by globalizing product development. Cons er the hurdles facing Kammerer as he develops the 19 Ford Escort to be sold worldwide. The Escort nameplate currently used for two completely different high-volume ve cles in Europe and the U.S. In Europe, it's a midrange fa ily car, typically purchased with a spate of options for ov $14,000. In the U.S., it's basic transportation, with most s for under $14,000. The five-door hatchback is the most po lar model in Europe, and the least in the U.S.

Kammerer, a confessed car freak from California, arrived Ford's offices in Dunton, England, last November to sup vise, among other things, the development of the new glo Escort. Now assembling his team of engineers and marketi and manufacturing experts—roughly 85% Europeans a 15% Americans—he's grappling with designing a car for e

THE 'SINGLE-MINDED KID' WHO'S REMAKING FORD

Alex Trotman's bosses could hardly have known. When Ford of Britain offered the 22-year-old Englishman a trainee's post back in 1955, the recruiter's letter stressed that he was expected to make his career at Ford. No problem, figured Trotman, who was already aiming for the executive suite. These days, that framed letter hangs in the chairman's corner office at Ford's world headquarters. Says Trotman: "I was a very single-minded kid."

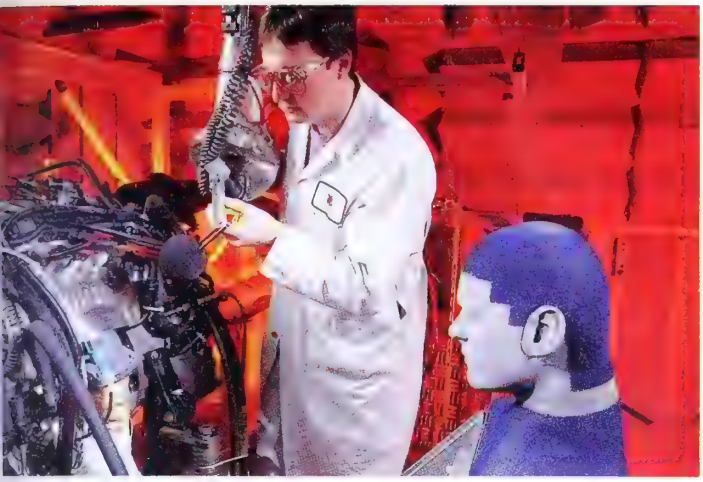
Over the years, little has deterred Trotman from his goal. Not Ford's past refusal to send foreign managers to the U.S., nor repeated job offers from Chrysler Chairman Lee A. Iacocca. Now, Trotman is applying that driving ambition to a massive overhaul of Ford. Succeed or fail, it will leave his mark indelibly on the world's No. 2 carmaker.

HANDS ON. By all accounts, Trotman has long stood out at the once stiffly hierarchical company. Insiders say he's a plain-spoken, driven executive who sticks to his course. Ford of Europe chief Albert Caspers remembers how in the late 1970s, Trotman—then running Ford's troubled European truck unit—stunned managers used to polite corporate double-talk when he declared that "if we can't make the truck business profitable, we should get the hell out of it." But Trotman's straight-shooting wasn't reserved only for those below him. He once snapped at Henry Ford II when the auto mogul questioned his decision to give a new car different names in Britain and Germany.

HIGH HOPES Even as a you man working Ford in Britai Trotman (righ had his eye or the top job

If Trotman speaks his mind, he has won the allegiance of many Ford managers by encouraging others to do so as well. He eschews formality, and heavily scripted meetings have given way to wide-ranging debate. "He's a hands-on executive, very warm and people-friendly," says David R. Gunderson, a key Ford execu now assigned t Motor Corp. "H an open-door st sets the tone." say he's a dema but appreciative One manager r bers Trotman s thank-you notes involved in a g project requirin less 15-hour da

Trotman is a shrewd in winn backing of his tenants. Richar Ogren, director petitive analysi that Trotman h "more or less" his mind to globalize Ford whe asked top execs to study it furt late 1993. As the plan unfolded, man included a growing circle ating managers in the detailed making. He knew these were t people who would make the re tion work—or could undercut it



LISTEN HARD
A hearing dummy will help pinpoint engine noise

ent production in many markets. For example, fabrics come different-size bolts in various countries. That makes it rd to engineer components, such as seats, which are de-gned around bolt size to trim scrap.

It may seem an engineering Tower of Babel, but Kammer-er regularly finds savings by plucking the best methods from each organization. The U. S. system for coordinating the redesign of prototype parts was better, allowing parts to be redesigned faster and with less waste than in Europe. And Europe's practice of monitoring the engineering work that arises from warranty claims at the factory made more sense than North America's do-it-at-headquarters procedure. Now, Kammerer's team is poring over 150 manufacturing and tooling procedures—everything from installing windshields to assembling engines and transmissions—to determine the best practices for the Escort redesign.

In Trotman's judgment, the merger is moving smoothly—so much so that he announced he will move up plans to extend it to Latin America and Asia-Pacific by the end of 1995, 12 months early. Kammerer is looking for recruits for his London shop. He's also arranging test drives of rivals' cars for his team in Brazil, India, and Taiwan, so that the Britain-based designers will know what they're up against.

But though the early signs are good, Ford 2000 is still a

t out. Still, while he espouses rk, there's no mistaking that boss. After backing debate, he errides managers with his 'I'm doing it anyway," is a Trot-chphrase.

nan's quick wit and a certain charm also work in his favor. of a carpet layer, Trotman nev-ed far from his regular-guy isiting an overseas Ford plant, s easily with shop-floor workers. e, Valerie, says when she and end their annual August holiday g the moors in Yorkshire, greeted warmly in the local pub nobody knows who he is, or if , they don't care." Avid hikers, escape on frequent backpacking nd on weekends, Trotman en-oeing the Huron River, uns near their home.

THE MUSTANG. Trotman s early years in wartime, -class London. He was seven unexploded bomb landed in rd. Soon after, the family o Edinburgh. Trotman won a hip to a prestigious boys' ut had to skip college because as no money. Instead, he be-Royal Air Force navigator. his tour ended, Trotman as a management trainee at rom there, he finagled a job asing. "That's where all the young guys wanted to be," ls, "and I thought of myself After a stint in product , where he helped design Britain's best-seller of the e Cortina, he was catapult-Ford's European ranks. But Trotman wasn't satisfied. Transfers from abroad to the U. S. were near-impossible. So he wangled an offer in 1969 at lower pay and rank, "intended to be refused," he says. "I fooled 'em and took it." Even then, Trotman had to pay his moving expenses.

By the late 1970s, Trotman was a key player in Ford's truck operations, had become a U. S. citizen, and earned an MBA at night. After briefly heading the Asia-Pacific unit, he vaulted into Ford of Europe's top job during its heyday in the late 1980s. But if his tenure was trouble-free, its aftermath wasn't. Europe's recession hit soon after he left to head Ford's U. S. auto business, and the European unit, caught with high costs and a weak product lineup, racked up losses. Trotman admits the good times lulled him into complacency—and he vows he has learned from the mistake. Friends say that explains his urgency in launching Ford 2000 even as U. S. auto sales boom.

While running Ford's North American auto operations in the early 1990s, Trotman pushed hard to cut costs and to improve factory productivity. Those efforts helped turn Ford into Detroit's low-cost manufacturer. Yet non-engineer Trotman bristles at any suggestion he's not a "car guy" whose devotion to design is as great as his focus on profits. He brags that on the first day he drove his new Mustang Cobra last year, he was pulled over for speeding. And Trotman's proudest contribution to Ford folklore is saving the Mustang from extinction. When Ford's other top brass favored killing it in 1989, Trotman backed the team redesigning the classic car. "We wouldn't have this car, if not for him," says designer John J. Telnack.

Still, the very doggedness that saved the Mustang and fueled Trotman's rise could easily turn to inflexibility. He can turn prickly if second-guessed after he has made a decision. "I don't look over my shoulder, and I don't look for anybody to get in my way," he says crisply. Yet as Ford's global reorganization unfolds, his struggle won't be staying the course so much as making mid-route adjustments. Trotman will have to temper his single-minded drive with willingness to learn from mistakes—one more challenge for the ambitious kid from Britain who has already come so far.

By Kathleen Kerwin in Dearborn

TROTMAN'S RISE

JULY 22, 1933: Born, Middlesex, England

1951-55: Flying officer in Royal Air Force

1955: Joined Ford of Britain as trainee

1967: Named director of car-product planning for Ford of Europe

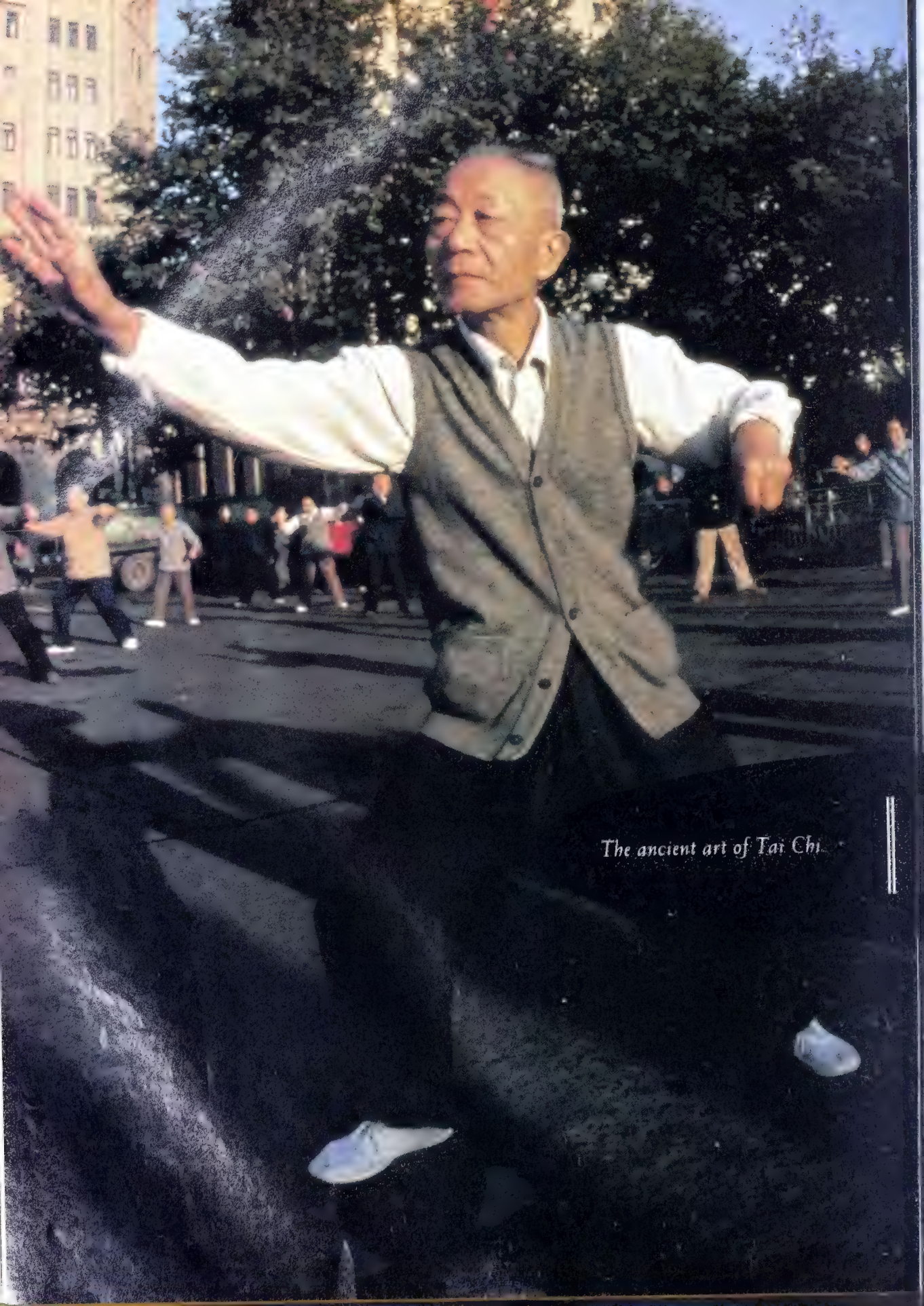
1969–78: Moved to U.S. and rose to top jobs in car and truck planning

1979-84: Became head of European truck operations, then oversaw Asian unit

1984–88: Named president, then chairman of Ford of Europe

1989-93: Appointed head of U.S. auto operations, then worldwide auto unit

1993: Became chairman, president, and CEO of Ford Motor Co.



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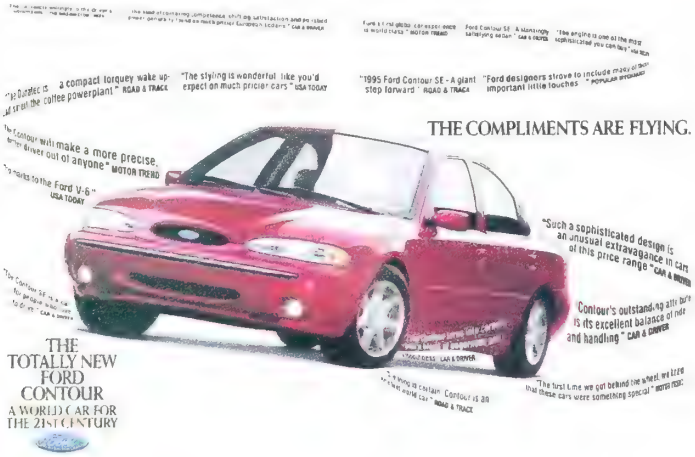
question mark. In its quest for a "world car," Ford's biggest risk is that it will end up producing a blandmobile that hits the lowest common denominator of taste in differing markets. Instead, Ford engineers have to produce a model that can be finessed to meet the differing needs of consumers around the world. Can they design a small car to which a heater can be added for Scandinavia and an air-conditioner for Singapore, without extra engineering costs to both? Ford's product-development czar, Nassar, says that Ford has tweaked cars to meet differing European tastes for decades. "I don't stay awake at night worrying about it," he says.

NEW TACK. Outsiders can only guess whether he should: The first cars developed under Ford 2000 won't hit showrooms until late 1997. But doubters such as automotive manufacturing consultant James Harbour remain unconvinced. "I don't see how you develop an Escort for five different continents and keep the cost low," he says.

GM, meanwhile, has taken a different tack. It retains strong regional operations that develop distinctly different vehicles for their own markets. Then, if a vehicle has crossover potential, engineers and marketers cross the Atlantic to suggest customization. Cadillac will get an Americanized version of the Opel Omega small luxury sedan developed by GM's Opel unit in Germany, while Opel will get a minivan designed mainly in the U. S. GM managers contend such ad hoc efforts are cheaper and more flexible. "If I were at Ford, I'd worry about disempowering your European organization by having too much decision-making in Dearborn," says Louis R. Hughes, head of GM's international operations.

Belleza con fuerza interior.



Ford does have one prototype of a global vehicle—the midsize car known as the Mondeo in Europe and the Ford Contour and Mercury Mystique in America. It's hardly an auspicious example. The widely criticized car cost $6 billion and took six years to develop, yet it has been only moderately successful. Introduced in Europe in 1993, the Mondeo was a hit, selling 642,000 in its first two years. But in the U. S., the cars have sold poorly since last fall's launch. Buyers suffer sticker shock when they compare prices with those of the car's predecessors, the Ford Tempo and Mercury Topaz. The most common model of the Contour goes for $14,665 vs. the average $10,800 paid for the smaller Tempo in 1994.

Trotman defends Mondeo's prodigious startup costs, arguing that for its money, Ford completely refurbished seven plants and developed a new family of V-6 engines. It also installed a Cray supercomputer and transatlantic communicati networks, which can be used for future new-car progran Still, analysts say it will be at least three years before Fc sells the 3 million units necessary to recover its high cos And they point to the Mondeo as evidence of what could wrong with Ford 2000. Ford added extra features that Am icans were less willing to pay for in a smaller car—such a high-tech engine that can go 100,000 miles between tu ups—in order to appeal to European customers. John Laws European research director for DRI/McGraw-Hill, points to Mondeo's cramped rear seat as evidence that it is too Eu pean—"more of a driver's car than a passenger's car."

WORLD CAR?
Mondeo/Contour ads appear around the globe. The car is a hit in Europe but has done poorly in the U.S. since last fall's launch

Moreover, Tr man's record as cost-cutter is not couraging. By own admission, didn't pare enou during his five-y stint as head Ford of Europe the late 1980s, le ing the unit poorly prepared for the recessi And it remains unclear whether Ford's organi tional reshuffle will solve the cost problems wi out further white-collar cuts.

BREATHTAKING. Costs are becoming an even b ger concern, as rising prices start to drive sh pers out of the new-car market. Ford has rai prices on key models such as the Explorer. new Continental luxury sedan sells for a brea taking $7,000 more than the old model. Ford's Windstar m ivan is priced above Chrysler's Dodge Caravan. And analy expect the new Taurus to arrive with a price increase. Trotman dismisses the problem summarily: "How can have an affordability crisis when you're selling 15.5 mill units? There is no crisis." But others in the industry more cautious. "Car prices can rise faster than incomes, that's not good," says GM's Jack Smith. "We have to be v careful."

If Trotman can achieve the savings he wants, he may able to keep his cars affordable. And if Ford can achieve bust growth in developing markets, Ford 2000 could prove be a winner. Trotman is confident in his vision. "Ford 2 ain't gonna fail," he states. It had better not: It's the script plans to follow for the rest of this century.

By James B. Treece, with Kathleen Kerwin, in Dearbo Mich., Heidi Dawley in Dunton, England, and bureau rep

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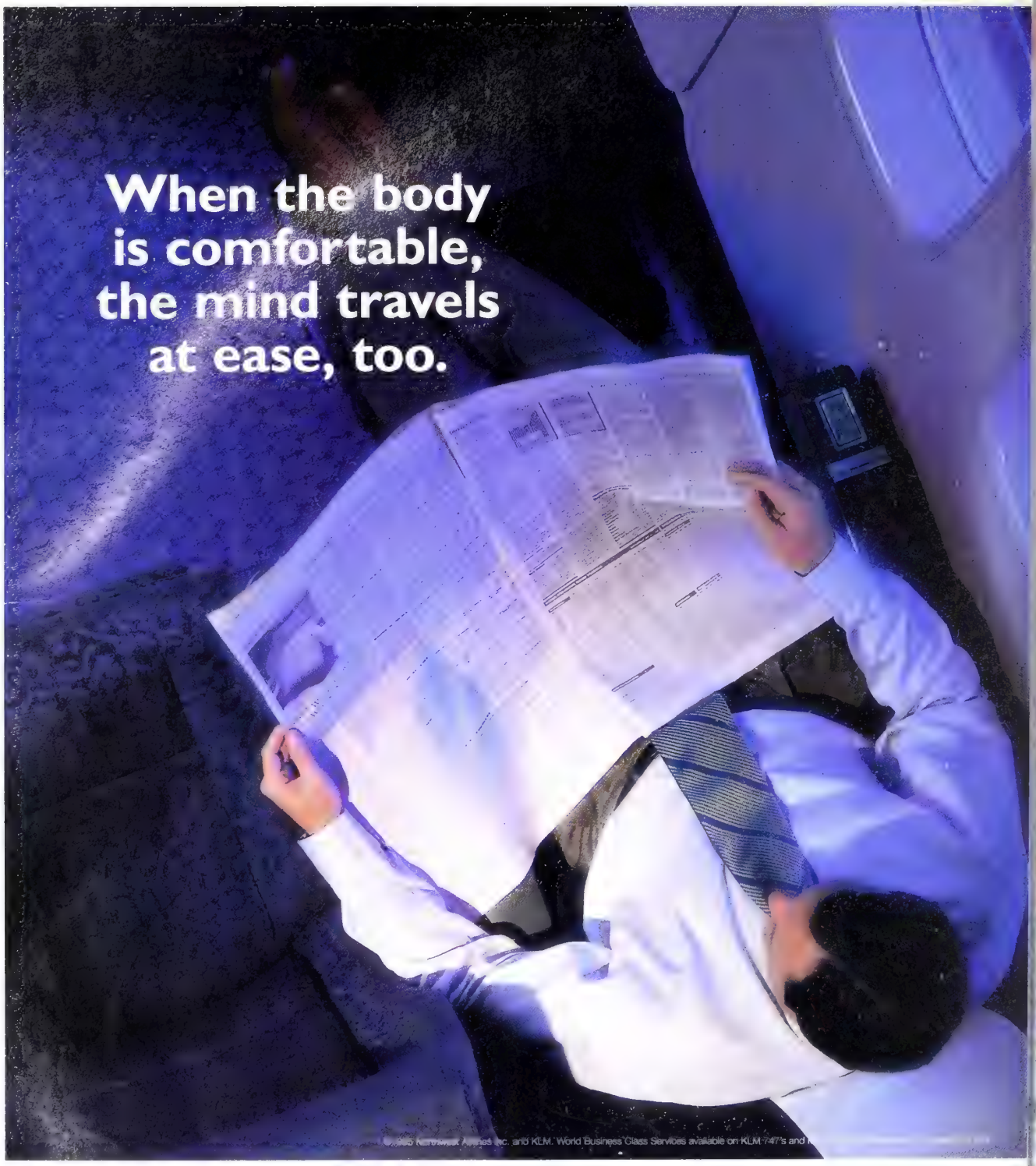

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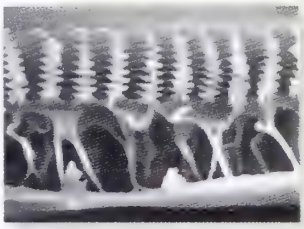
LECTRIC-FLUID NERGY GETS NOTHER SHOT

GNETOHYDRODYNAMICS IS guilingly simple in princi-: Electricity can be gener-d by passing a conductive id through a magnetic ld. But the extreme tem-ratures and fluid velocities eded for large MHD gener-ng plants damage compo-nts. The Energy Dept. mped hundreds of millions dollars into MHD until 1993 thout building a plant that oduced more electricity an it consumed.

LM Manufacturing d., a six-person com-ny in Marysville, ish., says it can suc-d by thinking small. hopes to build mod- MHD generators that liquid metal as the ductive fluid and pro-e just 5 to 250 kilowatts of ver. The initial market is ms, where deregulation is mitting competition. In one nario, a farmer burns nat-l gas to heat a liquid met-hat mixes with a liquefied . The mixture speeds past nagnet, generating power. Energy Dept. gave LM plus test gear from the nford (Wash.) nuclear site. eturn, it will receive stock LM and royalties on any erators sold.

RESEARCHERS AT NISSAN MOTOR CO. LOOKED CLOSELY AT the wings of a South American butterfly and got the inspiration for a car paint that will never fade. The iridescent blue of the *Morpho Sulkowskyi* is produced by the way tiny structures in the wing scales refract, diffract, and scatter sunlight (photo, above). A Nissan group led by senior research engineer Hiroshi Tabata found tightly spaced grooves about 1.8 microns deep. Each groove is lined with even tinier horizontal ridges called lamalla, which are packed together like louvers about 0.15 micron apart—half the width of the lines on the most advanced computer chips (electron microscope image, left).



In an early effort, Nissan researchers added iridescence to the paint on some 1991 and 1992 models of the luxury Infiniti by adding particles of graphite to conventional paint pigments. Now, Nissan hopes to do away with pigments entirely. Instead, cars would be covered with polymer fibers that have surface microstructures similar to those on the wing scales of *M. Sulkowskyi*. Nissan's plan is to squeeze the polymers out of microscopic nozzles. The sun's ultraviolet rays cause conventional pigments to decay, but a car coated with the butterfly-inspired paint would give off its color as long as the microstructure remains intact. Tabata hopes to have a prototype in three or four years.

A RIGHT HOOK AGAINST ASTHMA

ASTHMA COULD BE THE latest ailment to be alleviated by a hot theory in pharmacology: When it comes to drug molecules, one hand is better than two. Sepracor Inc. in Marlborough, Mass., says it has developed a "right-handed" organic molecule that treats asthma far more effectively than drugs containing both right- and left-handed molecules. Depending on their handedness, or "chirality," molecules perform drastically different roles. In thalidomide, for example, the good isomer acted as a sedative; the other caused birth defects. Today, 90% of synthetic drugs contain equal portions of the right- and left-handed molecules.

Sepracor has already

created safer, one-handed versions of painkillers, allergy pills, and prostate medications, some of which are approaching commercialization. The right-handed version of the asthma inhaler drug, albuterol, is aimed at preventing "hyperreactivity." The side effect, which worsens asthma attacks, occurs because the body metabolizes the good isomer in albuterol first and then starts reacting to its evil twin. The new version of albuterol is in clinical trials in Europe.

/O-IN-ONE TESTING FOR BREAST CANCER

AY MAMMOGRAMS ARE AN erfect means of detecting ast cancer. They can't tell ancerous lesion from a mless cyst, they miss up 0% of the cancers in the ser breasts of younger nen, and reading them is nuch art as science. So sicians are increasingly plementing mammograms ı ultrasound images of breast. But while so-ed sonograms can tell s from lesions, thus preventing unnecessary biopsies, matching and comparing suspicious spots on the ultrasound image with those on the mammogram isn't easy. And two exams cost more.

A Seattle-based startup, NeoVision Corp., has developed a system that does a mammogram and a sonogram in one fell swoop. It replaces the top plate on a mammography machine—the one that compresses the breast—with a plate containing ultrasound gear. A computer workstation displays and analyzes the images from both X-rays and sound. The system promises to reduce the need for biopsies and office visits while providing doctors with more precise information about the location of suspicious lumps. NeoVision hopes to file for Food & Drug Administration approval for its two-in-one machine in April. The company says it's negotiating with mammography companies to bring the technology to market.

MEDICINE

ZEROING IN ON A KILLER

Several leads show promise in cracking Alzheimer's

Before Washington budget-cutters hack any deeper into science spending, they should consider the short history of Alzheimer's disease research. Scientists have yet to produce a cure for this killer, which afflicts 4 million Americans. And controversies still rage over what triggers AD's complex progression of interlinked disorders.

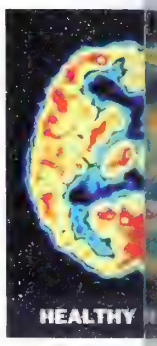
But recently, in quick succession, scientists have nailed the gene combinations that say who is at risk, created a model in transgenic mice to speed drug development, and devised better diagnostics. By any measure, "these are stunning advances," says Pennsylvania University neuropathologist John Trojanowski. And nearly all were funded by the National Institutes of Health.

There's more to come. Armed with a wealth of scientific data, researchers are mapping increasingly sophisticated drug strategies for the early 21st century. The goal, says Harvard Medical School neurologist Dennis J. Selkoe in Boston, is "to understand AD's cascade of pathology and find compounds that block it in distinct steps."

LETHAL CLOG. The most ambitious efforts aim to identify probable causes and correct them in an early stage (table). Most of the 20-odd companies developing drugs have zeroed in on plaques made of protein fragments called beta amyloid. These clog and possibly kill the brain's neurons, just as cholesterol clogs arteries and burdens the heart. And like heart doctors, whose first strategy against atherosclerosis is lowering patients' cholesterol, AD researchers hope to limit amyloid buildup, if they can discover the mechanism.

Leading the charge is Athena Neurosciences Inc., a South San Francisco company co-founded by Selkoe. In January, Athena and Eli Lilly & Co. unveiled the first animal model for the disease: a genetically engineered mouse that builds up AD-like plaques. With it, says Ivan M. Lieberburg, vice-president for research, Athena can test drugs to block amyloid-producing enzymes. Athena has likely candidates for the enzyme, as do Cephalon Inc. and Bristol-Myers Squibb Co.

Scientists at Gliatech Inc. in Cleveland have a different view on AD's cause. Chief Technical Officer Robert C. A. Frederickson says most cases can't be explained by plaque overproduction. The problem is clearance: AD patients' brain cells secrete protein sugars that bind to amyloid, causing it to accumulate. Backed by Janssen Pharmaceutica, a Belgium-based affiliate of Johnson & Johnson, Gliatech is developing small-molecule drugs to prevent binding. Safety tests in humans are still three to five years off.



Others are following genetic signposts to treat the disease. Three years ago, AD pioneer Allen D. Roses of Duke University linked a gene on chromosome 19 with a common form of the illness that strikes older patients. The gene codes for a cholesterol-carrying protein called APO-E, which comes in three variants. People with the least common one, called E2, seem the least likely to develop Alzheimer's. So Roses is looking for compounds that mimic E2 and possibly postpone the onset of the disease.

LOGISTICAL HURDLES. Roses says E2 guards a protein inside neurons called tau. In AD, tau grows abnormally and oozes from the cell to form fibrous tangles found in most AD victims' brains. Detractors say Roses hasn't identified E2's protective mechanism. But that didn't dissuade British pharmaceutical giant Glaxo Holdings, which inked a research deal with Duke last September to pursue the E2 drug. Jonathan Knowles, director of the Glaxo Institute for Molecular Biology in Geneva, calls Roses' APO-E work "groundbreaking" and doesn't worry about clashing theories. "It's not a matter of either/or," he says.

Many researchers are warry of tinkering with the body's production of amyloid. Rather, systems chemist Peter Lansbury at Massachusetts Institute of Technology says future drugs should intervene

Better Drug Strategies to Stave off Dementia

ATTACKING THE PROBLEM AT THE ROOT
Athena, Cephalon, and Gliatech are screening small-molecule drugs that either prevent buildup of damaging plaques or help the brain break them up. Glaxo is chasing a drug to delay disease onset by mimicking proteins that protect neurons.

CONTAINING SECONDARY DAMAGE
Somerset Pharmaceuticals and the National Institute on Aging are testing drugs that scavenge free radicals, which are toxic to cells. Also in tests: anti-inflammatories to slow dementia and estrogen therapies to delay the disease onset.

TREATING THE SYMPTOMS
CytoTherapeutics and Somatix are studying genetically engineered cell implants to deliver nerve-growth factors to damaged parts of the brain. Cortex, Gliatech, and Neurocrine Biosciences are developing memory- and cognition-boosting drugs.

NERVE CELLS (OCTOPUS SHAPES) WITH AXONS MENACED BY PLAQUE (GRAY AREA)

ıly at the point when the protein ag-
'egates into filaments and turns toxic
nerve cells. Other strategies target
lcium, which increases abnormally
hen amyloid touches a neuron's sur-
ce. It is implicated in tangle formation.
All these proposals face huge logisti-
l hurdles. They address biological
mechanisms that are
poorly understood, and
they're aimed at pa-
tients in early stages
of disease. Even with
new diagnostics, in-
cluding a combined
blood test and brain
scan from the Univer-
sity of California at
Los Angeles, nobody
can be sure who will
fall victim or how the
ease will progress. That means any
w crop of drugs will have to be test-
on individuals who are essentially
althy. "The Food & Drug Adminis-
ıtion will insist on unequivocal safety,"
ys UBS Securities Inc. biotech analyst
arc J. Ostro. "These therapies are at
ıst 10 years from the market."
Disease victims may not have to wait
ıt long. The NIH's National Institute
Aging is researching ways to contain
condary brain damage that can cause
emory loss (box). Through the
zheimer's Disease Clinical Studies
ıit, a consortium of 35 medical centers
sed in San Diego, it's testing drugs to
ht oxidative free radicals and inflam-
tion that causes AD symptoms.
Some of the NIA's trials with antioxi-
ıts and anti-inflammatories use com-
ınds already marketed for other dis-
ses. The consortium is also evaluating
dence that estrogen delays the onset
AD in postmenopausal women. The
al drugs "could modify the disease
ırse or slow the rate of decline," says
isortium director Leon Thal.
Although some researchers scoff at
i-inflammatories as a "Band-Aid on
ıcer" tactic, such therapies could
ke AD victims more comfortable and
ep them out of nursing homes. UBS's
ro figures Americans spend at least
billion a year to care for AD pa-
ıts—much of it flowing to institu-
ıs. But families resort to homes main-
when patients become agitated or
gressive. Even conventional drug
rapies should be able to offer some
ef, says Neil Buckholtz, who heads
ıg discovery at the NIA. That's a far
from the miracle cures sought by
ıroscientists and their biotech spin-
. But in their absence, soothing the
ery of victims and their families
ıld be no small triumph.

By Neil Gross in New York, with
ia Flynn in London

GARY LYNCH: THE MEMORY DOCTOR

In a few months, results will be in on an unprecedented experiment: the first human trials of a memory-boosting compound designed from the synapses up. The drug, called Ampalex, was hand-crafted to tweak the brain's molecular wiring. It's the creation of one of the world's leading authorities on memory, neuroscientist Gary S. Lynch of the University of California at Irvine, and his colleagues at a UC spin-off, Cortex Pharmaceuticals Inc.

Lynch has already proven that Ampalex lets middle-aged rodents race through learned mazes with the alacrity of animals half their age. And the drug sailed through human safety trials at the Free University of Berlin last fall. In May, fresh data should clarify if the drug can help its primary target: patients in early stages of age-related dementia. "I'm convinced this is going to work," says Lynch. Then he flinches: "But that's the moment the gods step in."

KNOCK ON WOOD

Though "convinced" that Ampalex is going to work, Lynch concedes, "that's the moment the gods step in"

MANY FLOPS. Lynch's caution is understandable. Other drugs have worked miracles in animals, only to flop in humans. And the brain, with 10 billion neurons, is orders of magnitude more complex than other organs.

On the other hand, no one is better equipped to crack the mysteries. Earning a PhD in psychology from Princeton in 1969, Lynch became, at 31, the youngest tenured full professor at the University of California. He spent the next two decades exploring how the brain learns and remembers—pausing only to co-found a chip company called Synaptics Inc. with Federico Faggin and Carver Meade aimed at mimicking the brain's wiring in silicon.

His main work focused on a class of glutamate protein clusters in the brain called AMPA receptors. These interact with neurotransmitters to carve the billions of electrical pathways that make up memories. Analyzing the mechanism, Lynch and his cohorts built molecules that hold communication channels open an eyeblink longer—turning fleeting impressions to long-term memories.

In 1987, Lynch and two colleagues founded Cortex to commercialize their ideas. Despite heavy research bills and no hope of a quick blockbuster, the trio attracted powerful backers, including George Soros' Quantum Fund, which purchased almost a fifth of the company in November, 1993.

JUST COFFEE? Now, Cortex is burning through its limited investment capital, and some scientists are pessimistic. Damage to synapses in Alzheimer's patients' brains is probably irreversible. What's more, says Salk Institute for Biological Studies professor Charles F. Stevens, "Gary's drugs aren't making the rats much smarter." Translated to humans, he figures, "they're not much different from a cup of coffee." Still, by bolstering undamaged synapses, Ampalex could make life happier for millions in the early stage of memory loss.

Besides, say Lynch's many supporters, Ampalex is just the beginning. Although final results aren't in, "there's a huge need for drugs of this type," says Leon N. Cooper, head of Brown University's neural systems and brain institute. Cooper, who shared a Nobel prize in 1972 for his work in superconductivity, calls Lynch "a remarkably creative scientist who has made major contributions." In the future, both men predict, most drugs will be designed from knowledge, not trial and error. "We may miss this time," Lynch admits. "But we won't miss the next."

By Neil Gross in New York

BANKING

NO FLOOR UNDER JAPAN'S BANKS?

The central bank is sounding the alarm

Could a pair of little-known, busted Tokyo credit cooperatives, similar to U.S. credit unions, threaten Japan's financial system? That's the warning Bank of Japan officials have been peddling ever since the central bank proposed a $1.98 billion, taxpayer-funded bailout of the Tokyo Kyowa Credit Assn. and Anzen Credit Assn. three months ago. On Mar. 17, BOJ Governor Yasuo Matsushita told a business group that letting the duo go under would unleash a "systemic risk" to the Japanese financial system.

It's tempting to dismiss such alarmist talk as justification for a rescue mission. This is not the first time that BOJ officials have forecast a financial meltdown, trying to scare banks into putting their houses in order. And the government has vast powers to prevent Japanese financial institutions from cascading into an abyss. Yet the system is particularly vulnerable now (tables). Many of Japan's other financial institutions are neck-deep in bad loans, at a time when bankruptcies keep mounting, loan growth has been negative for eight months, the yen is at worrisome highs, and a slumping stock market is pounding the banks' large equity holdings.

DUD LOANS. Although they have worked through some of their bad debts, Japan's top 21 banks are still carrying an estimated $300 billion in dud and restructured loans. Housing loan companies are probably stuck with $68 billion in soured debt. And $200 billion-plus in credit cooperative deposits are now at risk at a time when the nation's anemic deposit insurance fund is inadequate to shore them up.

The BOJ had hoped that rescuing the two credit unions would move smoothly and serve as a model for tackling bigger pieces of Japan's bad debt mess. Instead, the bailout has been endangered by scandal, with deep embarrassment to the government. Says Goldman Sachs (Japan) Corp. Vice-President David Atkinson: "There is without question a crisis in leadership."

The crisis was precipitated by the discovery that Tokyo Kyowa and Anzen had extended easy credit to top members of the opposition New Frontier Party. Relatives of one party leader received a $45 million loan to build golf courses. He resigned in early February amid speculation that politically connected depositors and borrowers had been influenced to engineer a rescue package. Outraged at the cronyism, Tokyo's metropolitan government shelved its planned bailout contribution of $340 million in taxpayers' money, leaving the BOJ to pick up the tab. If further revelations surface, some major private banks, which are expected to contribute a total of $568 million to the bailout, could jump ship, too.

FLIMSY FOUNDATION If a handful of Japan's 200-odd credit cooperatives go under, it could trigger a chain reaction that would endanger the entire system

The scandal has pummeled banking stocks, which make up a hefty portion of Japan's major stock indexes. The benchmark Nikkei 225 is down 19.2% so far this year, while the Topix leading share index has declined 18.5%. That hurts the big money-center banks, which have a thinner cushion of hidden stock reserves to deal with bad loans.

In retrospect, it should not have been a surprise that Tokyo Kyowa and Anzen

ight stir up trouble. Harunori Takahahi, chairman of Tokyo Kyowa and a op executive at Anzen, used depositor noney to bankroll his acquisitive and rivately held real estate group, EIE nternational. Tokyo investigators have lleged that Takahashi diverted 25% of ne cooperatives' combined assets into IE. If so, that exceeds a regulatory mit of 20%. Takahashi and EIE also ot billions of dollars in loans from the ong-Term Credit Bank of Japan Ltd.—noney that is unlikely to be repaid anyme soon.

The crisis erupted late last year. EIE ent belly-up, and rumors that Tokyo yowa and Anzen were next had deposors pulling money out in droves. Since larch, 1994, deposits have fallen by 0%. The run alarmed Yasushi Mieno, nen BOJ governor, whose tight credit egime punctured Japan's late 1980s aset bubble. He once suggested that a ankruptcy or two in the banking sector ouldn't be such a bad thing.

Now, though, he moved in the oppote direction. Just days before leaving fice in mid-December, Mieno anounced that the BOJ and private banks ould set up a new bank to take over okyo Kyowa and Anzen. Why? BOJ buaucrats started to realize that if even handful of Japan's 200-odd credit coopatives went under, it might set off a ip wire and endanger the whole sysm. From January to February, deposs among the 50 or so credit cooperaves in Tokyo shrank by 1.7%.

AKY BOATS. The credit coops account r only about 4% of total private deposs. But a run on them could easily exust the resources of Japan's Deposit surance Corp., which is funded by ivate banks and insures up to about 13,000 per depositor. It has a paltry lance of about $9.3 billion, or 0.1% of insured deposits, and is already comitted to pumping $454 million into the J-led bailout. If other credit cooperaves come running for help, the cenal bank would be forced to shore up e fund, probably with public money.

But the credit coops aren't the only aky boats in the banking fleet. Officials ven't even started to address the oes afflicting seven troubled housing an companies, or *jusen*, whose shareolders include Sanwa, Sumitomo, Daii Kangyo, and LTCB. The *jusen*, simi to U.S. S&LS, were set up in the rly 1970s to supply credit to homeners. They did—but also started lendg to real estate developers, financing erything from golf courses to condos til real estate prices collapsed.

The result: Roughly 50% of their 36.6 billion loan portfolio is now derwater, figures J. Brian Waterhouse, senior analyst with James Capel Pacif-

"SYSTEMIC RISK": *More than scare talk from BOJ Governor Matsushita?*

ic Ltd. The *jusen*'s major shareholders—big city banks, trust banks, and life insurance companies—could be left holding the bag, and any *jusen* bailout will certainly require some taxpayer contribution. Because of the close link between the home loan companies and Japan's first-tier financial institutions, says Standard & Poor's Corp. credit analyst Shinano Morita, "this is a much more serious problem for the Japanese financial system" than the credit coop mess.

Taking on the *jusen*'s bad loans would increase the already considerable pressure on the big banks' balance sheets. By the end of March, they are expected to write off half of their $150 billion in disclosed nonperforming loans—notes to defunct companies or those that haven't paid interest in more than six months. But they aren't required to say how many loans have been restructured with interest-rate breaks and other concessions. Whatever that figure is now, it's likely to grow. Bankruptcies in Japan jumped 10.9% in February year-over-year, because of the Kobe quake.

Worse, falling share prices are battering the large banks' stock portfolios, which have allowed them to write off bad loans. The market is not just likely to crimp future write-offs. It's also starting to undermine the banks' capital reserve ratios. Should the Topix index, now at around 1,260, decline below 1,200, the capital reserves of LTCB, Daiwa Bank, and Chuo Trust & Banking may fall below the 8% international reserve requirement, says Barclays de Zoete Wedd analyst Quinn Riordan. And their earnings picture isn't bright. According to Barclays estimates, the top 11 city banks will report lower average earnings for the year ending Mar. 31, with Sumitomo Bank Ltd. posting a $3.12 billion loss.

The big banks probably face years of balance-sheet repair work and will have difficulty unloading their real estate collateral until the commercial property market, down 50% from its early 1991 peak, recovers. And while Matsushita promises to keep a "soft grip" on interest rates, already at historic lows, slow loan growth will continue to dampen their profits.

Analysts doubt the BOJ and Finance Ministry will opt for a U.S.-style cleanup that relies on big public funding and ruthless bank examiners willing to push weaker players into bankruptcy. Yet without a comprehensive plan to undo some of the damage from years of speculation and abuses, Japan's banking system is in for a tough stretch. "I think they have only scratched the surface," muses L. William Seidman, former head of the U.S. Federal Deposit Insurance Corp. And for Matsushita, the prospect of a teetering financial system could turn out to be more than an empty threat.

By Brian Bremner in Tokyo, with Amy Barrett in Washington

THE BAD-LOAN BURDEN...

- At least $151.2 billion at Japan's 11 commercial banks, 7 trust banks, and 3 long-term credit banks
- An estimated $68.2 billion at the housing loan companies
- Some $1.2 billion at two credit cooperatives bailed out by BOJ, with 20 more under supervision

...WILL STRAIN THE BANKING SYSTEM

- Spooked by BOJ's bailout of two failed credit unions in Tokyo, depositors might yank their money out of other troubled CUs
- A run on deposits could pull more credit unions under, and Japan's Deposit Insurance Corp. would quickly begin burning through its paltry $9.3 billion
- BOJ would step in to shore up the deposit insurance fund with public money, but public confidence in the banking sector would be shaken

DATA: JAMES CAPEL PACIFIC LTD., BUSINESS WEEK

Uniload Helps Acer Deliver Fresh Technology Acer keeps popping up in the news. We're the computer giant with record 1994 revenues of $3.2 billion and climbing. And because we've been steadily meeting and surpassing projections for years now, we're suddenly a hot topic of discussion around the world. The big news is that every day, we deliver the newest, freshest PC technology to our customers around the world.

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Our products are never old news.

his revolutionary and highly original global approach to operations and management is one of cer's keys to success.

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Uniload is another example of how Acer technology improves your quality of life. To our mpetitors, it's another challenge to keep up with the company that's setting a course to the p of the PC ranks.

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MUTUAL FUNDS

GLOBAL BOND FUNDS' DARK LITTLE SECRET

Many hedged their currencies into dollars. Big mistake

Investors poured more than $50 billion into global bond funds over the past five years on a compelling sales pitch: higher yields and lower risk from spreading their investment around the world. And with the dollar on a long-term decline, global bond funds should have beat the domestic variety hands down, since many foreign bonds were denominated in appreciating currencies.

But most of the funds failed to deliver the goods. World bond funds on average performed only about as well as domestic bond funds in the five years ending Feb. 28, according to Morningstar Inc. In part, their returns were undercut by losses in Latin American and other emerging-market debt. But even those that stuck to higher-quality issues didn't make the gains that investors might have expected.

What happened? The dark little secret is that most of these funds hedged foreign currencies back into dollars when they should have held onto marks and yen. Hedging, says Mark W. Riepe, vice-president of Ibbotson Associates, an investment consulting firm, "turns your foreign bonds into a portfolio of synthetic U.S. bonds. We generally don't recommend hedging currency exposure." The best-performing world bond fund for the past five years is the unhedged T. Rowe Price International Bond Fund, with an average annual return of 12%, as opposed to 8% for its peers.

RALLYING. The dramatic plunge of the dollar that began in 1994 is highlighting the gap between the funds that hedge and those that don't. Last year was disastrous for bonds, as interest rates rose everywhere. But funds that bought bonds denominated in appreciating currencies—and left them unhedged—weathered the storm well. Franklin/Templeton German Government Bond Fund delivered 9.6% in total, vs. –8.2% for the average world bond fund. Other unhedged bond funds—State Street Research International Fixed Income C, Benham European Government Bond Fund, and T. Rowe Price International Bond—were more diversified and had lower returns (table).

So far this year, bonds are rallying, and so are many of the hedgers' funds. But the unhedged funds are making the biggest gains of all. Even so, many of them remain small and undiscovered. The German government bond fund, up more than 12% so far this year, has less than $20 million in assets.

The falling dollar is also boosting foreign currency funds, but they, too, lai in obscurity. Like U.S. money-mark funds, they buy very short-term sec ities. Franklin/Templeton Hard Curr cy Fund, up 15% in 1994 and 8% t year, has only $115 million.

Fidelity Investments runs three pu foreign currency money-market funds in marks, yen, and sterling—yet do not put any of its classic marketi oomph behind them. The three fu together have only about $30 milli "We have them as a convenience to phisticated investors," says Scott K dell, who manages the currency fun "We don't want a lot of people in th funds who don't understand the risk Perhaps so. But when it comes to vo tility, the currency funds have less th half that of Fidelity Select Preci Metals & Minerals. And the curre funds have done a better job of p tecting investors from inflation th gold funds.

NO REGRETS. Then why haven't U mutual-fund investors figured this o "People think that currencies are ri and should be avoided," says Donal Gould, who started the currency German government bo funds and then sold them Franklin/Templeton. "Indiv ually, these funds are vo tile. Putting them in a po folio of funds does not a to investors' total risk."

Fund managers know t but hedge anyway to av having to explain a curre loss to shareholders. T could happen if the dollar lies. "Strategically, we bears on the dollar," s Mark Turner of the Putn Global Government Inco Fund. "But we're hedg now because of the extre valuation in the yen mark." Adds Gary P. B son of Brinson Partners I a global money manager: hedge is insurance. I d regret having bought fire surance if my house doe burn down."

Yet even Brinson ad that long-term investors can stomach price swings be better served by lea their currencies exposed. long as the dollar rem under pressure, that will tainly be the case.

By Jeffrey M. Lader in New York

Funds that Ride the Falling Dollar

FUND	TOTAL RETURN* 1995**	1994	1993
BENHAM EUROPEAN GOVERNMENT BOND	10.1%	1.5%	14.9%
FIDELITY DEUTSCHE MARK PERFORMANCE	10.5	16.4	1.2
FIDELITY YEN PERFORMANCE	12.1	12.6	13.1
FRANKLIN/TEMPLETON GLOBAL CURRENCY	4.5	8.1	6.0
FRANKLIN/TEMPLETON HARD CURRENCY	8.0	15.0	4.7
FRANKLIN/TEMPLETON HIGH-INCOME CURRENCY	4.1	10.2	–2.6
FRANKLIN/TEMPLETON GERMAN GOVT. BOND	12.1	9.6	5.2
T. ROWE PRICE INTERNATIONAL BOND	8.7	–1.8	20.0
STATE ST. RESEARCH INTL. FIXED-INCOME C	10.8	4.3	13.6

*Appreciation plus reinvestment of dividends and capital gains, before taxes **Through Mar. 21

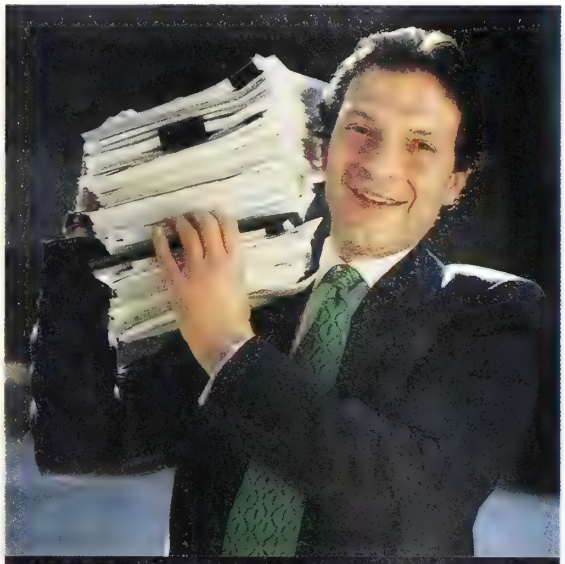
DATA: MORNINGSTAR INC., LIPPER ANALYTICAL SERVICES INC.

T'S SHOWTIME OR LEHMAN'S TAX MAN

bert Willens' expertise–and clear explanations–win fans

t's tax time for Corporate America, too. And to Robert Willens, this is a ous season indeed. For llens, the tax savant of hman Brothers Inc., has de a thriving career out helping companies avoid clutches of the Internal venue Service. His craft's st visible practitioner on ll Street, Willens is an ex- selling point for under- Lehman.

Willens, a tax accountant trade, likes to bedazzle man staffers with his lity to reel off tax rules l figure out how clients use them—in plain Eng- Traditionally, Wall eet houses have farmed IRS questions to tax at- neys. During the dealmania days of 1980s, however, firms added in-house specialists to dream up ideas for ls that lessen tax loads. Bear arns, Morgan Stanley, and J. P. Mor- are among them.



"HOOKED": *Prolific writing expands his reach*

ST-QUOTED. But Willens has achieved rmidable stature among these folks a result of his public exposure. A lific writer, he churns out easily un- standable analyses of deals that are ely read. He has authored over 200 cles in accounting journals. And for past three years, *CPA Review* has ned him one of America's most-quoted accountants. s has caused grumbling ng lesser-known tax ex- s. Still, he has many fans. lens, says tax attorney iel M. Shefter of Skad- , Arps, Slate, Meagher & m, is the most "knowl- eable tax commentator analyst in the business." he lanky and affable Wil- , 48, admits that his job is at "testing the limits of law." He has helped set several Lehman deals that ed on minimizing the tax (table). Consider AMR p., parent of American ines Inc. Last year, AMR wanted to replace its convertible preferred shares with debt, which is cheaper capital since its interest is a deductible expense. Savings: $12 million yearly. But more leverage on the company would displease ratings agencies. Lehman mollified the agencies by structuring a convertible debt security that eased the burden on AMR in hard times—the company can delay paying interest for up to five years.

Similarly, Willens had a hand in reshaping Ford Motor Co.'s corporate structure so it would not be penalized by a tax-code change meant to punish high leverage. Ford's dilemma was that it couldn't use all of its overseas tax credits, which reduce its IRS bill by giving it a break for levies the company pays to foreign governments on its offshore operations. Reason: In the 1986 Tax Reform Act, Congress placed a limit on the overseas tax credits a debt-heavy company could use. Ford's balance sheet carried a handful of high-debt subsidiaries—car leasing, insurance, land development, and banking. Answer: In 1989, the carmaker followed Lehman's advice to place all of the subs in a new entity called Ford Holdings Inc. This was tricky. Under the tax code, parent Ford couldn't own the whole thing. That's why Ford Holdings issued preferred stock to the public representing 25% of its voting power.

SHORT CUT. Or check out the predicament of Sensormatic Electronics Corp., which makes those security devices that detect shoplifters sneaking out a store's door. In December, it sought to merge with a similar company, Knogo Corp., but it wanted only Knogo's foreign operations, because growth and profit potential are better. Also, Sensormatic feared that, with Knogo's U. S. operations, it would dominate the domestic market and attract an antitrust challenge. Yet it didn't want to go through the hassle of absorbing all of Knogo and then selling off its U. S. assets, since the proceeds would be taxable. Under Lehman's guidance, Knogo spun off the U. S. business to its stockholders, then merged with Sensormatic by swapping shares. Both maneuvers were tax-free.

An accountant's son, Willens acquired his tax expertise at what is now KPMG Peat Marwick, where he advised dealmeisters at then-powerhouse Drexel Burnham Lambert Inc. Hired in 1987 by Lehman, Willens floundered for a while. "No one knew what I was supposed to do," he recalls. Willens fixed that by bombarding the firm's investment bankers with E-mail memos suggesting tax-free mergers-and-acquisitions options.

Willens, since promoted to managing director, is a very busy man. He gets to the office at 6 a.m. to rummage through tax publications. Aside from planning M&A tax angles and writing reports, Willens advises Lehman's institutional clients on trading strategies and teaches a tax class at Columbia University Business School. Says Willens: "I'm hooked on taxes" —other people's presumably.

By Larry Light in New York

Playing the Tax Angle

	THE PROBLEM	THE SOLUTION
AMERICAN AIRLINES SECURITIES SWITCH	Plan to replace costly equity with tax-deductible debt disliked by leverage-leery ratings agencies	Exchange equity for convertible debt that allows issuer to postpone interest payments
FORD'S OVERSEAS TAX CREDITS	Because of debt-heavy units, IRS frowns on the auto maker's use of all its foreign tax credits	Units placed in separate, 75% Ford-owned, company, removing limit on tax credits
SENSORMATIC-KNOGO MERGER	Merged store-security outfit would have to sell Knogo's domestic assets, paying taxes on proceeds	Right before merger, Knogo spins off domestic operations to its shareholders, tax-free

DATA: LEHMAN BROTHERS INC

BY GENE G. MARCIAL

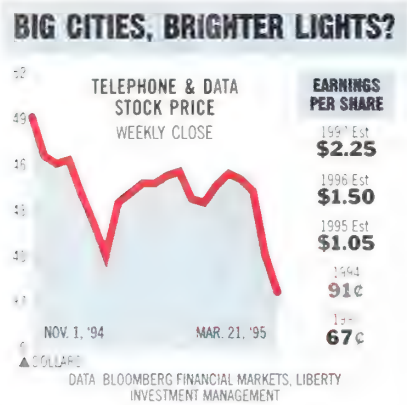
PCS LICENSES MAY MAKE PHONES RING

One glance at the stock chart of Telephone & Data Systems (TDS) suggests that the company is one mighty sorry loser. After all, the shares have plummeted from 45 to 35 in just a couple of weeks. Has the sky fallen in on this provider of rural telephone service in 29 states?

"Quite the contrary," says investment manager Herb Ehlers, who upped his holding when the price started to sag. The company has, in fact, just pulled an enviable coup by winning bids for wireless personal communications services (PCS) licenses in eight cities for $289 million.

To Ehlers, chairman and chief investment officer of Tampa's Liberty Investment Management, which steers some $4.5 billion, the newly won licenses make Telephone & Data, now trading at 38, an even more valuable enterprise in this hot business.

But here's why others bailed out: They worried that acquiring the PCS licenses would require a huge outlay.



Investors feared the company would need to raise money by selling more stock. And they didn't see how the company could protect its credit rating and profit margins as it built up PCS operations. The company also provides cellular services through its 81%-owned U. S. Cellular (USM), and paging services through 80%-owned American Paging (APP).

It's true that Telephone & Data has said it is studying certain financing options. But not the type of equity financing that investors had feared, says Ehlers. He is convinced Telephone & Data will form a PCS subsidiary and take it public to produce the funds needed to launch a wireless telecommunications network.

"Telephone & Data, with all its properties and licenses, is one of the most undervalued companies in the industry," says Ehlers. He puts the combined value of its various assets at $100 a share. The stakes in U. S. Cellular and American Paging alone are worth some $40 a share in Telephone & Data stock, figures Ehlers. Telephone & Data, he maintains, "is a growth stock that is a great value play." He estimates that over the next three years company profits will grow at an annual 25% rate.

Telephone & Data plans to align and attach its PCS operations with its existing cellular markets, explains Ehlers. The eight licenses won by the company are for some of the fastest-growing U. S. cities: Columbus, Ohio; Clearwater, Fla.; Houston; Kansas City, Kan.; Orlando; Pittsburgh; St. Petersburg; and Tampa.

Ehlers says he wouldn't be at all surprised if one of the major telecommunications companies ultimately made a move to acquire Telephone & Data—before it gets to be a major and expensive player.

BIDDERS CROWD AROUND EL RANCHO

Stock in Las Vegas Entertainment Network (LVEN) has been like a bad bet on a Nevada gaming table: Trading at 6 in late 1993, the shares later nosedived to 1, closing on Mar. 21 at 1¼. But just as many investors were about to give up, a deep-pocketed New York investor—widely feared in the 1980s as a belligerent raider—expressed an interest in acquiring a controlling stake in Las Vegas Entertainment.

It's this biggie's first move into Las Vegas, and his interest is in the company's 22-acre El Rancho Hotel & Casino right on the Strip. El Rancho has been appraised at $60 million to $70 million. A California investment manager says this New York mogul would put in $20 million for a controlling stake, get the property back in shape, and start operating its currently shuttered casino.

But when word leaked out that one investor was interested, four other groups suddenly emerged and made informal offers. One faction is led by a former CEO of one of the biggest L Vegas casino-hotels. The second is New Jersey gaming group headed by controversial financier. The third par is a wealthy California real estate i vestor. The fourth group is a public traded entertainment company Nashville.

Las Vegas Entertainment Chairm and CEO Joe Corazzi, who has be seeking financing for an $85 million re ovation of El Rancho, declined comme

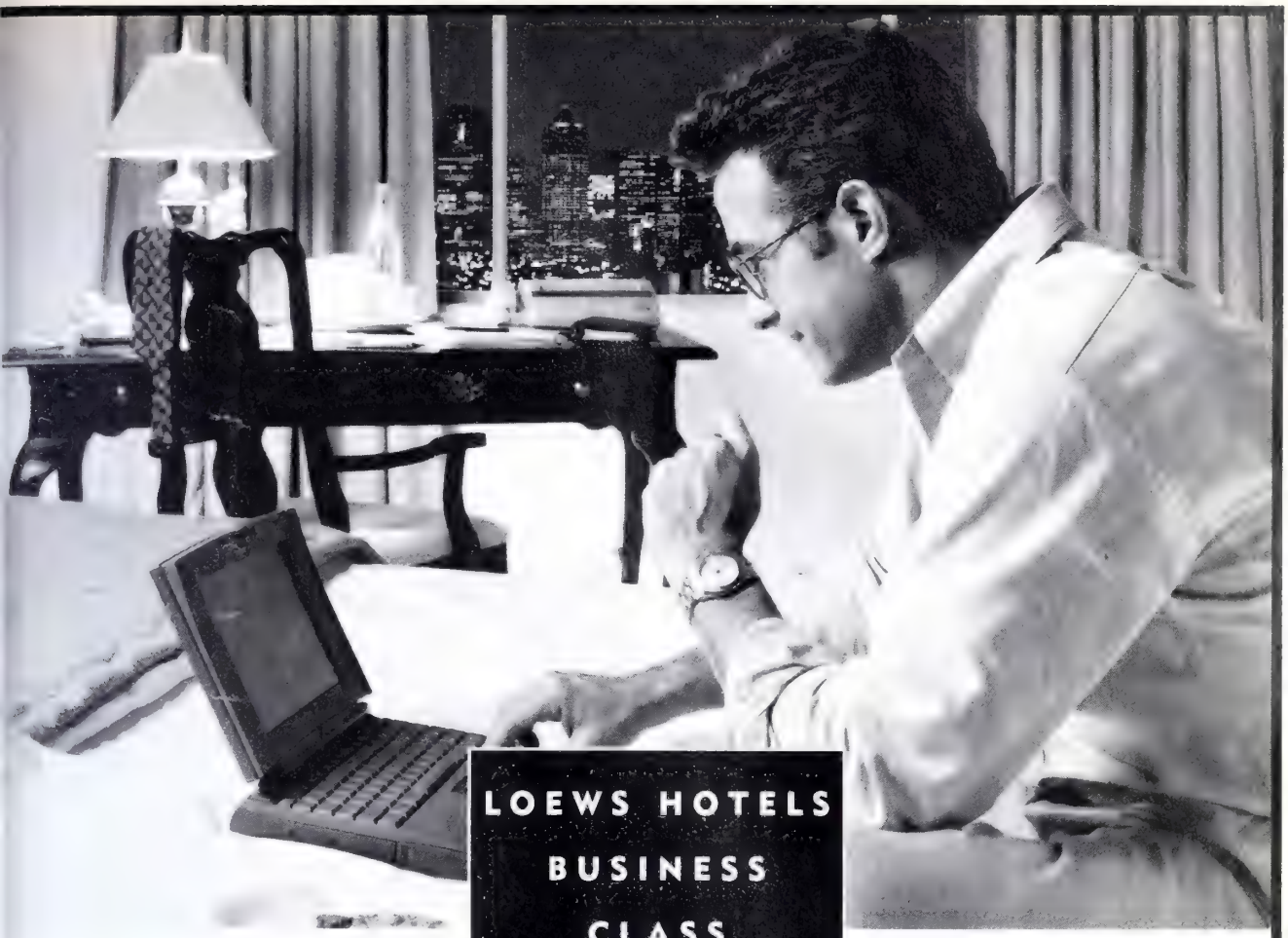
A HEALTHY TRADE IN TEMPS

Temporary help is one of the hotte commodities in health care. Hos tals, nursing homes, and home-servi providers can't get enough of it, esp cially licensed staff in physical, occu tional, and speech therapy. And tha why stock in CareerStaff Unlimit (STAF) has been so robust, shooting from 11 a share in mid-November nearly 18 on Mar. 21.

"Many institutions are discovering that temporary staffing is a cost-effective way of providing quality care," says Nancy Moyer, a health-care analyst at Unterberg Harris. She notes that CareerStaff has become the leader in a fast-growing niche business. "There is a huge shortage of skilled and licensed physical therapists," she say

Use of such specialists, she explai has grown tremendously because the aging of the population and n surgical procedures that require the py as a follow-up. Workers' compen tion laws in various states also courage the use of rehab services workers can return to jobs faster.

Based on her earnings projectio Moyer sees the stock hitting 26 i year. She expects earnings of 87 share on revenues of $100 million t year, and $1.20 net on sales of $1 million next year. The company ported record numbers last year: Pr its soared 370%, to $3 million, or 48 share, as revenues leaped 103%, $55.2 million.



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Special Report

PLANET INTERNET

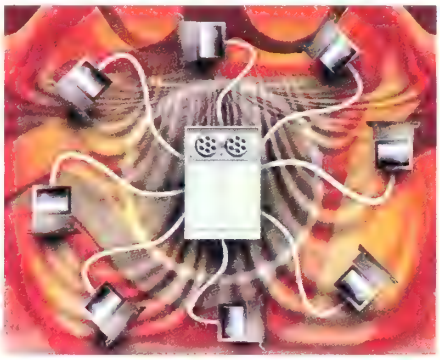
How the center of the computing universe has shifted

It just may be a computer maker's dream come true—the Internet. Suddenly, computer-industry executives have grasped that the Net is a lot more than just the world's biggest E-mail system or a place where computer jocks can get their jollies. The Net, they've come to realize, could very well be the IBM Personal Computer all over again—a powerful, low-cost, open, standards-based technology "platform" upon which to build all sorts of new products, strategies, companies, markets, and even a few fortunes. Like the PC, this global network stands to reshape the business model of the e tire industry. "This is a rocket that has been launched," sa Eric E. Schmidt, chief technology officer at workstation ma er Sun Microsystems Inc. "There's no one who can stop it. T future of computing is defined by the Net."

Indeed, thanks to a powerful new software scheme call the World Wide Web, the Internet is beginning to eclipse more accurately, to subsume—the PC. The Internet will so be so ubiquitous, or "transparent," as experts say, that w

The Biggest Thing Since the IBM PC?

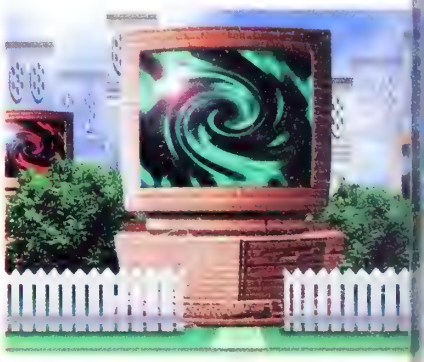
The Internet ushers in a new era in computing's short but colorful history. Now, computers will serve as communication devices as well as calculators and word processors. The Internet, global and universal, offers the best of the past and a nearly limitless future.



1970s

SHARED COMPUTING

Timesharing mainframe and minicomputer systems allow hundreds, sometimes thousands, of dumb terminals to share information and computing services. But terminals are expensive, communications slow, and software anything but user-friendly. Worse, proprietary designs make it painfully difficult to share information between systems.



1980s

PERSONAL COMPUTING

The cheap, microprocessor-based PC brings computing power to the people. Open software stimulates flood of imaginative applications. But the computing generally gets done in isolation, with only limite data. Local-area networks help us ers reach beyond their desktops, but only to other users and resou es within their organizations.

1990s

ETWORKED COMPUTING

e Internet, connecting millions of computers, ers a powerful new computing "platform" on ch to build brand new computing applications. cause its software, including a scheme for elec- nic publishing called the World Wide Web, is n to all types of computers, the Net promises wipe out technical and geographic hurdles that e been holding back the Information Revolu- n. The Internet is now the center of the comput- universe.

take it for granted, as we do electrical power or the phone system today. The grand vision now sparking imaginations and business plans throughout the computer industry is that by 2000, all major software programs will be "aware" of the Net and depend on it for a continuous stream of new data and updated functions. Less and less will you have to make a conscious decision to "get on the Internet," as you do today. Whenever it needs to, your PC will reach into the Web for a piece of data, a movie clip, or even a new program.

"IT PERVADES EVERYTHING." Such a universal network is the fulfillment of a long-cherished dream of computer scientists. In the early days of computing, "dumb" terminals could connect to a single mainframe or minicomputer, which let them share large amounts of data and computing power—but only if they could speak the digital lingo of that system. Another problem: Terminals were expensive and so were the phone connections. The PC caused a revolution with its low-cost computing power, but it isolated people from large pools of data and from one another. Local-area networks have helped, but they're limited in size.

The Net, it now seems, will take computing to a new plane—where information and computing resources from all over the world will be at your fingertips. If what's needed isn't in the disk on your desktop machine or the server down the hall, the next place your PC will look is on the Web. The boundary between your computer's contents and the rest of cyberspace will be almost imperceptible. Leading-edge customers, such as Federal Express Corp., are already taking advantage of that Web capability. Clients can now contact the shipper's IBM mainframe via the Web and check on the status of their shipments. Says Alvin Tedjamulia, senior director of research and strategy planning at network software maker Novell Corp.: "We want to eliminate the difference, from the user's point of view, of where any particular document is—inside General Motors, in the Library of Congress, or on the Web."

As the throbbing new center of the computing universe, the Net is quickly drawing the brightest technical talent, the most ambitious entrepreneurs, the sharpest marketers, and the savviest managers. "Everyone's so excited right now. They're all wondering, 'How do we make use of this giant thing that has tentacles everywhere?'" says Jay A. Batson, senior analyst at Forrester Research Inc., a consulting firm in Cambridge, Mass. "It's a very high priority at Apple," says Larry Tesler, the PC maker's chief scientist. "It pervades everything."

The Net "represents a fundamentally new product opportunity that's actually more exciting than the IBM PC," enthuses James W. Breyer, general partner at Accel Partners, a Silicon Valley venture-capital firm. "With the PC, there were some standard distribution models you could apply. With the Internet, business models are simply virgin territory, which means there's a wonderful opportunity for entrepreneurs to apply their creativity."

And, many industry executives believe, it's a splendid chance to change the rules of the game—so that software goliath Microsoft Corp. wields less power. While Microsoft controls the key software standards of the computer industry now, the Net is not owned or controlled by any particular company or interest. The Internet business is a fresh field of dreams in which even small companies can pioneer new technologies, set new standards, and grow rich.

The Internet has already grown so large—some 30 million people are now connected to it—that the industry giants

couldn't fight it if they wanted to. Rather, they are figuring out how to play the Internet market. IBM, for example, already has made Internet access a feature of its OS/2 Warp operating system and Microsoft will do so with Windows 95, due out in August. Apple also is said to be working on Internet links, including providing access through its eWorld online service. But those companies are Johnny-come-latelies compared with the likes of Digital Equipment Corp. and Sun Microsystems, which began supplying Internet technology years before the Net fad exploded.

Special Report

Most likely the Internet era won't be marked by the kind of dominance that Microsoft enjoys now or IBM did in the mainframe era. By conscious design, it is open to nearly infinite geographical expansion, to any brand or type of computer, and to virtually any use that engineers can think of. Basically the Net is just a few protocols, or communications

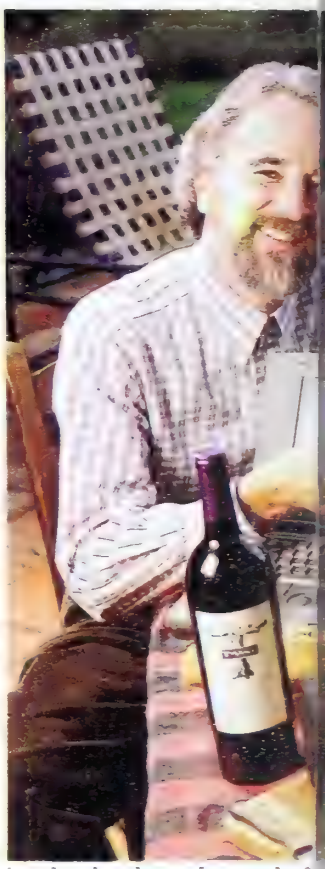
BEYOND NETWORKS

IBM will make all of its machines Web-ready. In theory, that will help reengineer business processes

JOHN R. PATRICK
IBM INTERNET APPLICATIONS

rules, that govern some fundamental interactions between computers. Like the PC's MS-DOS operating system, which allows almost any word-processing package to run on any PC clone, the Internet protocols allow every make and model of computer to swap E-mail and other files. As long as a computer talks the Internet talk, it doesn't matter what kind of chips it uses, what software it runs, or whether a user types Swahili or Spanish: The message will get through.

The great flexibility of this setup is what's enabling the Internet to grow like Topsy, with hardly any central management or a blueprint for the future. Every month, the Net population grows by 10% to 15%. The Web, estimates Sun's Schmidt, is doubling every 53 days. By 2000, experts say, the Net will have as many as 100 million servers—computers that store volumes of information and dish it out to so-called clients, usually PCs.



The Internet has more than numbers on its side. Its open protocols are an invitation for anybody anywhere—from giants such as IBM and Apple to your nerdy neighbor—to create things that attach to the Net, making it a hothouse for all kinds of innovation. Whether it's linking a multimillion-dollar IBM mainframe to the Net or a way to help a client PC get around the Net faster, the Internet is daily absorbing every improvement in computer hardware performance and every new software idea that hits the market—with no disruption.

There's hardly any product or service that has been dreamed of n the still-unbuilt Information Superhighway that is getting developed for or actually delivered over s Internet today. The only limit seems to be e neers' imaginations. For example, an Israeli com ny called VocalTec has just delivered a $49 s ware package that melds the power of high-end with a relatively old Internet protocol to cre something entirely new: live, long-distance, and p tically zero-cost voice-messaging across the Inter The voice links aren't good enough yet to repl standard telephone service, but who knows? quality can only improve as the Net's circuits computers grow faster by leaps and bounds.

PERFECT BINDING. In the past year, the great focu innovation has been the World Wide Web. Based new set of protocols, the Web is helping the Inte deliver all the "multimedia" pizzazz that PCs are pable of—stylish typography, colorful graphics, p button interactivity, and even sound and video. Ag a key public protocol, called HTML (hypertext mar language), makes it easy to combine and "publ those complex types of data without caring w computers people might use to view it. This univer ity has made the Web so popular that HTML is spil over into other forms of electronic publishing, inc ing CD-ROMs and commercial online computing services.

Equally important, though, the Web adds much-nee structure to the Net, allowing mere mortals to navigate fragmented resources. In addition to HTML, the Web s plies a standard method for giving a unique name to eac the zillions of digital "objects"—documents, video clips, di tories, and electronic malls, to name just a few—that pe are creating in cyberspace. Clicking on highlighted w or buttons on a Web "page" lets you "hyperlink" to rel pages where you might find additional information, a prog waiting for you to give it data, or still more links to ot

nts on the Web. At no time, however, do you need to ow or care where any of this information is physically red. The Web fosters the illusion that all of the Net's nputers have been stitched into one, with their myriad reirces ready for you to tap.

The folks who can build new products and services on s mesh of cooperating computers are, potentially, the lead- of the computer industry a decade from now. Which exins the flood of Internet startups. At Accel, Breyer says, % of all companies in its $350 million-plus portfolio are king the Web a strategic component of their product or vices. A year ago, Accel was rewing perhaps one Net-related tup plan every week. Today, it is to 20—everything from multiyer computer gaming services to gital cash" schemes for online pping. Michael K. Parekh, online nputer-services analyst at Goldn, Sachs & Co., predicts the total ernet market—including software, dware, and services—will hit $4.2 on by 1997.

EXT WAVE

s unstoppable: he future of mputing is defined the Net"

E. SCHMIDT
MICROSYSTEMS

CYBER SOMMELIERS

Software makes it possible to keep track of customers' preferences

PETER GRANOFF AND ROBERT OLSON
VIRTUAL VINEYARDS

But the strategic shift—and opportunity—that the Internet represents is far more important than the short-term revenues. The big names such as IBM, DEC, Apple, Sun, and Microsoft are all building Net-centered strategies—not because they want to fight over a few billion dollars, but because they need to stake out their futures in the $300 billion computer business. "We believe this is a very significant business for Digital," says Rose Ann Giordano, vice-president of DEC's Internet business group. "And I'm not just talking about tens of millions of dollars a year. For now, the Internet is the Information Superhighway."

At IBM, every computer line, from PCs to mainframes, is being readied to create information for viewing over the Web. Plus, Big Blue is counting on the Net as the basis of a new class of "networked" applications. In theory, they'll help reengineer entire business processes. One example: a corporate purchasing system, developed jointly with Coopers & Lybrand, that will automatically route electronic orders within a company and make sure they go to the appropriate managers for approval, then directly into the right supplier's computer.

RISING SUN. Like other computer makers, IBM sees its role as helping customers create new systems for the Net or at least forge Net connections. "There's no question that we want to put more focus on enabling people to put their services on the Internet," says Fernand B. Sarrat, general manager of the Networked Application Services Div. His lieutenant in the Net business, John R. Patrick, vice-president of Internet Applications, says the business of helping customers create Web sites is booming. "We're sold out," he says. "We can't keep up with demand."

For Sun, the Internet is a golden opportunity. It has already supplied about 56% of the Internet's servers. Just maintaining that share of the server market would be a huge business. But the company is attacking the Internet on

several other fronts, including a prototype of an "interactive" Web browser that not only can jump from one page to another but also can launch small programs known as "applets." Such a setup would make it possible for two people in different locations to collaborate on a design project, for example.

Special Report

The major emphasis, however, is on helping customers use the net for electronic commerce. "Think about how the postal system opened up commerce and how that profoundly changed business," says William J. Raduchel, vice-president for corporate planning and development. "The same thing is going to happen with the Internet." A big hang-up companies have about electronic commerce is network security, so Sun is working on a scheme to keep financial transactions secret on the Net. And, if its software for interactive Web browsing works as planned, Sun says its customers will be able to create TV-like home "pages" on the net. Embedded programs would be able to display video clips or other kinds of "live" action to lure consumers. "Is this going to sell a lot more Suns?" asks Schmidt. "Absolutely. It's a no-brainer."

Another no-brainer: Software makers must adapt to the Web. Within a year or two, industry executives predict, most PC packages—word-processing programs, spreadsheets, and operating systems—will be able to work across the Web. Lotus Notes, the leading "groupware" package for sharing information across large enterprises, is being made Web-compatible, for example. "The Web browser will quickly become a universal portal" into all information systems, says Jeff Crowe, president of Edify Corp., which sells an "agent" program that can be programmed to gather data from any kind of existing computer and deliver it via fax, E-mail, phone, or, soon, the Web.

Xerox Corp.'s software arm, XSoft, is working with Nov and others on a scheme called Document Enabled Netwo ing. Using it, a Xerox machine at your local copy shop, for stance, could pull a document—a technical paper, say—fr anywhere on the Web and print as many copies as you wo like—for a fee the document's owner has established.

The Net will almost certainly change how software gets s and delivered. Instead of shipping floppy disks or CD-RO software companies will be able to advertise, take orders a payments, ship code, and deliver technical support directly i customers' computers over the Internet. That's what McA Associates, a supplier of antivirus software, and CyberSou Corp., a software distributor, are already doing.

CHEAP CHAT. Computer makers who don't get hip to t Net risk being left behind—as many were during the boom. For starters, no single maker of computers or softw has the research and development budget to match the fu ous rate of innovation that is now taking place on the Int net. And once security issues are resolved, customers will to move internal information systems onto Internet pl forms. The economics will be too compelling to ignore: E after customers start paying for actual usage rather th flat fees (box), it will be far cheaper to communicate o Internet than via any private network. That's because the aggregates traffic from so many users that it qualifies for lowest possible phone rates. What's more, Internet tra can ride over virtually any communications technology—so Net can always take advantage of the cheapest links availa

While leveraging the Internet may be essential to a co puter maker's survival, it isn't just a defensive play. As Internet evolves, it's likely to take over your telephone, y fax machine, and maybe even your TV and stereo, too. S the Information Superhighway is supposed to meld all th

WHITHER THE NET, WHEN IT'S PAY-AS-YOU-GO?

As the Internet grows into a huge information machine, it is outgrowing one of its most cherished and long-standing traditions: unlimited usage for a flat fee. The transition to a new kind of pricing—based on the quantity and quality of service that a user receives—is inevitable, most economists and engineers say. But it will be wrenching, both in terms of the psychic disruption visited on long-time Internauts and the expense of accounting and billing systems.

What happens to the Net when the free ride ends? University and corporate Net surfers prize the intellectual freedom to explore Internet resources and experiment with new services without worrying about a ticking meter. "We may end up killing the most vital part of the Internet—the environment for the foment of new ideas and applications," says Stephen E. Deering, a computer scientist at Xerox Corp.'s Palo Alto Research Center. Deering, an advocate of flat fees, helped develop software for one of the services that could be costly under usage-based pricing: MBone, a means of sending video over the Internet to many locations simultaneously. MBone soaks up gobs of telecommunications "bandwidth."

While most big companies and universities still p fee to an Internet access provider—roughly $13,00 month for a 1.5 megabit-per-second connection—the has already begun to tick for many consumers. The growing type of link is lower-speed dial-up. Perfor Systems International Inc., for example, charges $9 month for nine free hours at 14.4 kilobits per secon $1.50 an hour thereafter.

Flat-rate pricing worked just fine in the days wh Internet was a club of like-minded techies who hee other's friendly warnings not to take advantage. Bu honor system can no lo depended upon for a n that is bigger, more im al, and rife with busine who gladly exploit the priced resource to the an economist, I look at and say, 'How can that work?'" says Hal R. V University of Michigan ics professor. Varian h investigating Internet options with other rese including Xerox PARC c scientist Scott Shenker ponent of usage-based and an office neighbor rate advocate Deering.

A Neighborly Debate over the Soul of the Internet

Two computer gurus working side by side at Xerox's Palo Alto Research Center lead opposing factions in the debate over pricing the Internet

STEPHEN E. DEERING

"As soon as you start charging for usage, people are going to be afraid to get onto the Net, and accounting and billing would be horrendous"

SCOTT SHENKER

"Without some form of usage-based pricing, people will never restrain their usage of the Internet. We can design it to avoid burdensome overhead"

RTUAL CONFERENCE ROOMS

ents can share documents, nverse, and explore the b together

SHAPIRO
UE

nologies into a torrential digital stream, too. while the I-way remains a work in progress, Internet offers a solid test-bed for advanced nunications. Cornell University researchers, xample, have come up with software, called CU-Ie, that transmits live video images between top computers—at the stuttering rate of five es per second. "The Internet will become the a for meeting, interaction, and conferencing of nds," says Ehud Shapiro, president of Internet up Ubique.

bique, based in Israel and San Francisco, has loped software that mixes text, photos, draw- and even VocalTec's digitized phone conversa- to create "virtual places" on the Web. The idea help business people and others meet in a simulated where they can share documents, exchange typewritten spoken comments, and explore the rest of the Web :her—with no time delay. To show off this concept, ue plans a virtual trade show where online attendees will ble to drop in at simulated booths, collect brochures, and even have private conversations with engineers there.

Such innovations are arriving at warp speed. Says Michael Goulde, senior consultant at Patricia Seybold Group, a software consulting firm: "New stuff is happening so fast it's almost impossible to keep up."

Lofty expectations are sending valuations of companies with promising Web technology into the stratosphere. Last fall, America Online paid $30 million for BookLink Technologies, which makes Web-browsing software—even though the company had yet to ship a finished product. On Mar. 13, CompuServe Inc., an AOL rival owned by H&R Block Inc., shelled out $100 million in cash and stock for Seattle's Spry Inc., a BookLink competitor whose market share is estimated at less than 10%. "I'm amazed that they'd pay that much," says Michael D. Harrigan, vice-president and general manager of the Internet Div. at Network Computing Devices Inc., which itself has just brought out its own browser, called Mariner. "It just shows that the Internet market is red-hot."

One thing that would cool it quickly is a turned-off public. And that's a real risk if it becomes too hard to find useful places to visit on the Net. InfoSeek, a startup in Santa Clara, Calif., is one of several companies tackling this problem. It has set up a server that maintains a subject and keyword index of all Web documents and a variety of other information sources from the Internet and news wires. Customers can run searches of the index, via the Web itself, as many as 100 times a month for a $9.95 monthly subscription fee. The system accepts "natural language" queries such as "What is the latest news about Afghanistan?" so no programming is required.

Just as important as finding information is dishing it out—a job for Web server software. While companies such as Sun, Silicon Graphics, and Netscape Communications are helping businesses create colorful Web pages on servers, it may take more to keep consumers coming back again and again, says Robert A. Olson, co-founder and president of Virtual Vineyard Inc. in Los Altos, Calif. Olson has written software that attempts to recreate the trusting relationships customers might develop with the knowledgeable owner of their local wine store. His system records and analyzes data about each customer's visit to the server. It tracks what each person looks at, his or her purchases, and so forth. Then, the next time that person visits, the machine can use that data to make appropri-

new Internet services such as phone calling and MBone are hastening the day when usage-based ll be required. It's not just that they consume lots lth. Phone calls and videoconferences have to be al time"—they can't tolerate intermittent delays -mail or other ordinary data can. To keep real-time om being knocked out by network congestion, perators will have to either spend heavily to add nts of capacity, or give voice and video priority ntional data. In either case, voice and video will ng subsidized by users of conventional services mail—unless they pay extra for special treatment.

OLD DAYS." A thorough form of usage-based pric- force the Internet to take on many of the trappings company. Automatic routers would need to track the source and destination of every piece of voice, ata. Then that information would have to be passed mputers that would prepare itemized bills. If that e, "Some people are going to think wistfully about ld days," says George H. Heilmeier, president of he research arm of the Baby Bells.

ox PARC's Shenker says there are cheaper, sim- to keep services such as the MBone from screwing ernet. For instance, Internet providers could re- mers to pay extra for the right to transmit, say, video per month. How that would be monitored n: "People are in a denial phase because nobody to do this," says Michigan's Varian. But if a so- worked out soon, he says, Internet providers to unclog traffic jams by draconian measures— rring high-bandwidth services. And that would yone unhappy.

By Peter Coy in New York

ate recommendations and customized special offers.

Olson's Web server lets people compare their wine palates—using numerical scales for such criteria as fruitiness and bouquet—with that of the outfit's trained sommelier and co-founder, Peter Granoff. When there's a special offer to promote, the server can automatically send personalized E-mail to a selected list of customers, all signed "corkdork," which is Granoff's Internet I. D. Olson says he plans to license his server software to purveyors of other high-end "lifestyle" products.

In the Internet era, it will be just such services that l the masses online—and the computer makers hopping. "' Internet thing is going to make the PC industry in 1982 like a casual walk down a country lane. It's just g whoosh," says Charles Ferguson. He'd better hope he's r A former Massachusetts Institute of Technology resear and computer-industry pundit, Ferguson recently co-fou Vermeer Technologies Inc. in Cambridge to develop ware for information services on the Web. If the Net can up to its vast potential, his dream could come true.

By John W. Verity in New York, with Robert D. Ho San Francisco and bureau reports

YOU'RE RUNNING OUT OF EXCUSES FOR NOT GETTING ON THE NET

A year ago, most of the people who were on the Net had to settle for a rickety telephone connection that reduced their personal computers to little more than "dumb" terminals. You could log into someone else's computer, send E-mail, read text files—and not much more.

An explosion of new software has changed all that, putting the vibrant graphics and point-and-click file transfer of a full-fledged Internet connection within reach of anyone with a modem and a mouse.

SURFING IN SYRUP. By far the easiest route to the Internet experience is through Prodigy, the first of the Big Three commercial online services to offer Internet access that includes the ability to prowl the World Wide Web. With a click of your mouse, you can jump from the regular Prodigy service to the Web. Time spent on the Web is priced as part of Prodigy's basic service. One drawback to Prodigy is that it is limited to 14,400 bit-per-second (bps) service and 9,600 bps in many areas of the country. This can make Net surfing seem more like Net slogging, especially if you visit graphics-heavy sites on the Web. Like other online services, Prodigy is planning to offer 28,800 bit-per-second service, as well as Integrated Services Digital Network (ISDN) access at up to 128,000 bps, but these upgrades are months off, at least.

Prodigy Services Co.'s lead among the online providers won't last long. America Online Inc.—which carries an electronic version of BUSINESS WEEK—is currently testing a Web browser that it expects to offer to subscribers later this spring. CompuServe Inc., which has been the laggard, jumped into the Web with the Mar. 14 acquisition of Spry Inc., maker of Internet in a Box access software. Subscribers will be able to reach the Web through CompuServe's private network, but initially at least, they will have to make a separate telephone call instead of just clicking on an icon in CompuServe's regular service.

If you want Internet access without all the trappings of a commercial online service, you can get more hours for less money. The software for Netcom Inc.'s NetCruiser is about as easy to install as that for any online service, and while some functions are a bit clunky, it provides a full range of Internet access. Twenty hours a month online will cost $19.95 on Netcom, vs. $54.20 on CompuServe.

With either Netcom or the Big Three online services, you have to use their software. If you want to choose your Net tools from the plethora of commercial, shareware, and freeware programs available, such as Netscape, you need what's called a dial-up SLIP or PPP connection that turns your PC into a temp rary part of the Internet itself. Easy-to-set-up software and servic packages are offered nationally by providers such as Performance Sys tems International Inc. and UUNET and by a host of local and regional providers. These companies will pr vide you with the software you nee to get started, su as Internet in a Box or NetMana Inc.'s Internet Cl meleon, along wi technical support.

As the comput business regroups around the Net, Internet access is becoming a standard feature. IBM OS/2 Warp operating system offers built-in connectio through IBM's Advantis network, while Microsoft Corp.'s forthcomi Windows 95 will provide a service through the new Microsoft Networ And just about any modem-equipp PC that can run Windows or any M intosh offers all the horsepower yo need for Net browsing. It has neve been easier.

By Stephen H. Wildstr in Washing

Three Routes To The Internet

SERVICE PROVIDER	COST	OFFERINGS
PRODIGY SERVICES CO. 800 776-3349	$9.95 per month, $2.95 per hour over 5	Dial-up online service features full Internet access, including a Web browser
NETCOM ON-LINE COMMUNICATIONS SERVICES 408 983-5950	$25 setup, $19.95 per month, $2 per hour over 40	Custom software provides access to major Net features, including browser
INTERRAMP PERFORMANCE SYSTEMS INTERNATIONAL 800 827-7482	$9 setup, $9 per month, $1.50 per hour over 5	Full dial-up connection to the Internet

DATA: COMPANIES

One play can mean the difference between winning and losing. One fax can mean the difference between the right play and the wrong one. Perched high in a press box at Soldier Field with a bird's eye view of the opposing defense, Chicago Bears offensive coordinators diagram plays and send them down to the sideline. They send them down to a Muratec plain-paper fax with superfine resolution and image smoothing. After all, a picture can be worth more than a thousand words. Six points to be exact. Muratec. **1-800-543-4636**

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EDITED BY AMY DUNKIN

THE SIREN SONG OF CALIFORNIA'S ROUTE 1

We packed our bathing suits and hiking boots. We brought plenty of sunscreen, and even rented a red convertible for our drive up California 1, the tortuous, two-lane road that snakes between jagged mountains and crashing surf along the midsection of the coast. We had heard about the unusually warm weather in recent weeks and were looking forward to glorious days and dramatic sunsets. As it happened, we ran smack into one of the worst storms to bash the area this century.

Next time, we'll wait until winter ends. Rather than suffer washed-out roads and hotel rooms with no power, we'll more likely be treated to spectacular views, wildflowers, and calm weather. In late spring and summer, at least, the adage that it never rains in California is almost always true.

Spring is the best time to go. The skies will be dry, and the coast road will be relatively free of traffic; most people making the 450-mile trip between Los Angeles and San Francisco zoom up the inland freeways. In summer, Route 1 is a more well-worn path. Even then, it remains a visual and ser treat, passing winds rocky shores, aromatic wood groves, and tra coves named by Spanish plorer Gaspar de Portol

VOLCANIC PEAKS. It Portolá months to com his trip up the coast. You do it in a weekend or a A good starting point is Luis Obispo, 200 miles n west of Los Angeles. O dusty cowtown, it has g into a thriving college munity brimming with and bookstores. It also plenty of what passes f cient history in Califo Begin a short walk a

MAPS BY ALBERTO MENA/BW

ion, built in 1772, where y summer the locals host ɔzart festival. Across the a are old Western-style lings, including the Sinner Brothers department e, with its fine cast-iron le, built in 1874. If you de to put up for the t, stay at the Madonna with its eclectic rooms $87 to $210 (800 543-). Some feature cave-like rooms with waterfalls.

rom San Luis, head nwest along a pretty valunctuated by nine small anic peaks, the last of h, Morro Rock, juts into ɔcean. Despite its ticky-

■ *The Post Ranch Inn (right) at Big Sur: Nature walks and yoga classes*

tacky wharf, Morro Bay boasts one of the few remaining estuaries on the coast. We took advantage of our only sunny day to spend the morning in Morro Bay State Park, where each year hundreds of great blue herons nest in a eucalyptus grove.

In summer, "clam taxis" ferry visitors across the bay to a sand spit to dig for large pismo clams. Hikers should check out the 8,000-acre Montaña de Oro State Park a few miles south, where poppies bloom in April and May. Nearby Los Osos Park features 85 acres of sand dunes and dwarf oak trees.

SEACOASTS

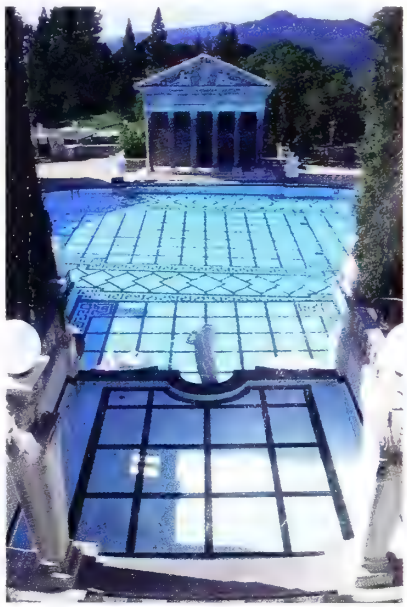
Route 1 tracks northward from Morro Bay. You'll see Cayucos, which looks like a Mediterranean village from a distance, nestled along a hilly bay. Before reaching the Santa Lucia mountains, you may want to detour east on Route 46 to one of several local wineries. Back on the coast road, make sure not to rush past Cambria, a former whaling town tucked into a valley shaded by Monterey pines.

From Moonstone Beach just outside of town, it's a 10-minute drive to San Simeon, an almost obligatory stop. Built from 1919 to 1947 by publishing tycoon William Randolph Hearst, the opulent castle strikes some as beautiful, others as gaudy and excessive. Either way, it's fascinating. The Moorish 100-room castle is jammed with rare antiques. Persian rugs in one baronial room give way to Egyptian sculpture in the garden and Greek and Roman statues around an immense pool. Expansive views of the hills and ocean spread out in all directions. The two-hour

tour costs $14. Book in advance (800 444-4445).

A few miles north, the road enters a stunning and isolated landscape, never straying more than a few hundred yards from the cliffs and crashing surf below. Pay close attention to the frequent hairpin turns as the road threads through deep canyons. And always keep an eye out for falling rocks.

Unfortunately, in our case, we were dodging small mudslides. But we were rewarded with mist-shrouded vistas of green slopes dotted with cattle, rocky outcrops, and oak and redwood clusters. In nicer weather, you may pull over at the many vista points to scout out sea otters. Make sure you tackle this 75-mile stretch in plenty of daylight. It's by far the most spectacular—and gut-wrenching.



The highlight of our trip came farther up the road at The Post Ranch Inn in Big Sur (408 667-2200). Secluded and closely attuned to its natural setting, the inn features 30 private units cleverly blended into a hilly ridge 1,200 feet above the surf. We stayed in a treehouse, wedged among ancient oaks. Modern, angular, and looking like a spacecraft on stilts, our little hideaway swayed and shuddered at the height of the storm but kept us warm and dry.

HIKER'S HEAVEN. In more placid weather, guests can take a nature walk through the resort's 98 acres of woods and meadows or wake up with a yoga class on a platform overlooking the ocean. For more energetic souls, Big Sur offers extensive hiking trails. Room rates range from $265 to $525 per night with breakfast. A sumptuous dinner at the inn's Sierra Mar restaurant costs $55 per person, not including wine.

We had hoped to see Carmel and Monterey, but the storm blocked our path. On our next trip to San Francisco, we'll make an easy side trip to Point Lobos, where sea lions bask in great numbers. Next time, too, we'll visit the Monterey aquarium and Cannery Row, famous from the novels of John Steinbeck. Who knows, maybe we'll even get to put down the convertible top. *Rick Schine*

■ *Hearst's San Simeon: 100 rooms crammed with art*

PHOTOGRAPHS BY HUGH MARKES

■ *One attraction at Suns Beach: A turtle sanctua*

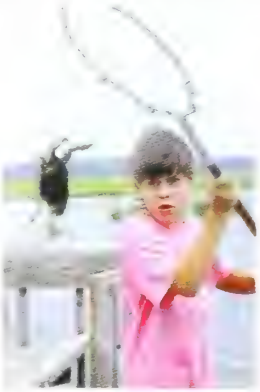
BEACHES AND LINKS THAT CATER TO YOUR WALLET

SEACOASTS

Perhaps life is a beach, as the bumper sticker claims. But enjoying the coast can be costly. From finding the right accommodations to golfing and amusements for the kids, expenses for a seaside vacation can mount quickly.

That's what makes the Brunswick Islands along North Carolina's southernmost shore such a treasure. Nestled between tony Cape Hatteras to the north and bustling Myrtle Beach to the south is a 50-mile necklace of lovely barrier-isle beaches. The living is easy. The golf courses are spectacular. And there's plenty for the kids without the schlock that has overwhelmed many Atlantic beaches. The area remains steadfast to its motto: "Leisure with dignity."

But here's the best part: They're practically giving it away. From the $1,700-a-week beach mansions on Bald Head Island and Caswell Beach to the $750-a-week fishing cottages along Holden Beach, rents run a third to half of the price of similar accommodations on the Outer Banks. And everything, it seems, is reasonably priced, from fresh seafood to miniature golf and water slides.



■ *Net result: Seaside fun without schlock*

Quality doesn't suffer, either. The small communities clustered on the five barrier islands between Southport, N.C., and Calabash on the North-South Carolina border simply offer a quieter alternative with an authentic Southern accent. Unlike most of the Atlantic shoreline, the beaches here face south, cutting down on treacherous currents and providing a flatter, more gradual incline into the sea. The result is a safe, fun ocean beach for children, plus extended riding waves for surfers.

Golfers? Behold paradise. On the mainland, the area boasts a half-dozen links from the "best course" lists of leading golf magazines. Try The Gauntlet at St. James Plantation near Southport, with its tight, wooded fairways and expansive marshes. Or Lion's Paw Golf Links, near Calabash, an open, undulating swath of deep green fairways diabolically laden with water and sand traps. The Rees Jones course at Sea Trail Plantation is reminiscent of the luxurious courses at Hilton Head. After a match, take a drive nearby through mossy oaks across a pontoon bridge to Sunset Beach, where you can explore the sea-turtle sanctuary.

Invariably, the courses are pretty, well-kept, and uncrowded, though you'll have to call ahead to schedule tee times. With many courses tied to leisure-home developments, greens fees priced to attract buy Check newspapers and estate offices for disco coupons. It isn't hard to a round for $25, including riding cart.

The restaurants lean ward "Calabash cuisi which means batter-fry But with fresh tuna price $5.99 a pound and shr harvested out of the b you may want to broil s fish back at the beach ho

SAND DOLLARS. For a trip, take the ferry to Head Island, the eastern key in the Brunswick c A private island where aren't allowed, Bald Head wild ponies, a restored li house, and a lovely course of its own.

The seaport town Southport, established 1792, has antique shops guided tours of its ante lum mansion Calabash, can watch fishermen un their daily catch. But mo you'll find yourself hun for sand dollars in the or lollygagging in the o breezes on the deck.

The South Brunswick lands Chamber of Comm (910 754-6644) has informa The nearest sizeable air is in Myrtle Beach. All i the Brunswick beaches o trip you and your wallet want to miss.

Doug Harbrecht

When

you meet face-to-face
it's so much easier to see
eye-to-eye.

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WHITE WATER, HIGH CULTURE –IT MUST BE BLUE HILL

■ *Great escapes: Blue Hill offers superb boating, hiking, and fishing*

Outside the coastal village of Blue Hill, Me., an old stone bridge divides the Atlantic Ocean from the Bagaduce River. As a teenager, I used to step over the beam spanning the bridge's side, maneuver onto a narrow ledge, and dangle over the water 15 feet below. When I let go, I took a ride that's unforgettable. A roaring tidal rip running under the bridge sent me flying over haystacks—the big swells formed by the rapids—six feet high.

In all, there are five reversing tidal rips where seawater meets rapids near Blue Hill (population: 1,900). Despite its obscurity in the travel literature, Blue Hill is a great escape that doesn't attract the crowds of many of Maine's other resorts. The town doesn't get the recognition of touristy Bar Harbor or George Bush's summer digs, Kennebunkport. But for some, it is the quintessential Maine vacation experience, a combination of recreation, solitude, and high culture.

■ *Lobster lollapalooza*

SEACOASTS

RIP SURF'S UP. Located on a peninsula just north of Penobscot Bay, Blue Hill lies near Maine's best recreational playground, Acadia National Park. It has access to superb boating, hiking, fishing—and tidal-rip surfing. In summer, the town becomes a cultural center. Chamber orchestras and folk musicians perform regularly, and local artists sell their wares at a dozen galleries.

Once a shipbuilding and mining town, Blue Hill has been transformed in the past 30 years into a popular home for artists and writers. Essayist E. B. White lived nearby, and was inspired to write *Charlotte's Web* by the annual Blue Hill Fair held in August. Schools of music, crafts, and wooden-boat building attract creative-minded visitors.

For all that, this rural community is not ideal for everyone. Named for a mountain covered with blueberry fields in summer, Blue Hill has only a dozen or so shops and fewer restaurants and inns. You'll be hard-pressed to find a room with a telephone.

■ *A dozen shops and few inns*

Finding your way to Blue Hill is easy, however. It's north of Bucksport, about 15 miles off Route 1, the [illegible] mary route up the coast [illegible] about 45 miles southeast [illegible] Bangor International Airp[illegible] Those so inclined can arr[illegible] by boat and anchor in [illegible] Hill harbor. For places [illegible] stay, there's the Blue Hill [illegible] (207 374-2844), located i[illegible] historic building and kn[illegible] for its excellent cuisine. [illegible] Blue Hill Farm Country [illegible] (207 374-5126), a bed-a[illegible] breakfast on 48 acres, has [illegible] rooms and a great view [illegible] Blue Hill mount[illegible] The John Peters [illegible] (207 374-2116) overl[illegible] the harbor. Pr[illegible] range from $75 to $[illegible] a night in season.

For restaura[illegible] don't miss the [illegible] Bank Cafe/Bakery [illegible] landmark with a c[illegible] terculture atmosph[illegible] and performances [illegible] folk and jazz musici[illegible] The Firepond is [illegible] most romantic, wit[illegible] rushing stream un[illegible] neath. Expect to sp[illegible] $50 for dinner for t[illegible]

Information on [illegible] certs, art exhibits, [illegible] plays is available f[illegible] innkeepers or sto[illegible] Classical music concerts [illegible] offered in Kneisel Hall, w[illegible] also has a summer schoo[illegible] chamber musicians (207 [illegible] 2811).

Outdoor activity is str[illegible] for self-starters. The [illegible] places to rent equipmen[illegible] boats are in nearby Ellsw[illegible] or Mount Desert Island. [illegible] dangerous reversing tidal [illegible] offer thrills for [illegible] adventurous ca[illegible] ist, kayaker, [illegible] swimmer. Nu[illegible] ous lakes are e[illegible] lent for boa[illegible] and fishing, [illegible] several saltw[illegible] coves are acces[illegible] to small b[illegible] Acadia, about [illegible] minutes away, [illegible] the best hikin[illegible] the state.

E.B. White said Maine [illegible] a "paradisiacal quality." [illegible] Blue Hill is a piece of M[illegible] paradise. *Geoffrey S[illegible]*

THE COMPUTER BOWL

He left me swimming in a stream of compression algorithms

I could never get him back.

Would never want to. I alone could reformat my hopes and dreams. I alone must match wits in a challenge of intellectual stamina and tenacity, test my computer trivia and mettle.

Conquer The Computer Bowl.

Somewhere between madness and success lies The Computer Bowl.

The obsessive passion of technology.

Sponsor The Computer Bowl. April 20. Broadcast on "Computer Chronicles." Check ur local PBS listings for day and time. Ten industry leaders in a contest of computing and via knowledge to benefit The Computer Museum, Boston.

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Throughout the ride, competitors, spectators and our staff will be encouraged to provide help and support to each other. So that as the ride reaches its finale we hope to have inspired a new found confidence amongst all those involved.

Which is precisely what we mean when we say "Go ahead. You can rely on us".

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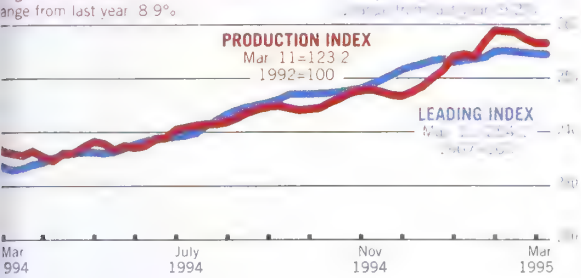
usiness Week Index

DUCTION AND LEADING INDEXES

ange from last week: –0.1%
ange from last year 8.9%

Change from last week: –0.1%



xes are 4-week moving averages

roduction index was flat for the week ended Mar. 11. Increased ally adjusted output of autos and trucks offset declines in coal and c power. Before calculation of the four-week moving average, the index 122.9, from 123.5.

ading index fell slightly in the latest week. Large-business failures rose, e growth rate of M2 slowed. The unaveraged index dropped to 253.6, 254.6.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/18) thous. of net tons	2,082	2,015#	12.0
AUTOS (3/18) units	144,686	149,291r#	7.6
TRUCKS (3/18) units	123,194	122,513r#	7.9
ELECTRIC POWER (3/18) millions of kilowatt-hrs	54,412	58,329#	–2.5
CRUDE-OIL REFINING (3/18) thous. of bbl./day	13,400	13,686#	4.5
COAL (3/11) thous. of net tons	20,320#	21,198	–2.9
PAPERBOARD (3/11) thous. of tons	887.8#	939.1r	2.8
PAPER (3/11) thous. of tons	846.0#	864.0r	3.3
LUMBER (3/11) millions of ft.	452.8#	449.4	–9.3
RAIL FREIGHT (3/11) billions of ton-miles	23.2#	24.2	1.8

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (3/17) S&P 500	493.15	484.73	5.1
ORATE BOND YIELD, Aaa (3/17)	8.04%	8.22%	7.8
TRIAL MATERIALS PRICES (3/17)	114.0	113.5	NA*
IESS FAILURES (3/10)	318	312	–3.3
ESTATE LOANS (3/8) billions	$468.1	$468.3	11.4
Y SUPPLY, M2 (3/6) billions	$3,583.1	$3,585.6r	1.2
L CLAIMS, UNEMPLOYMENT (3/4) thous.	338	332	–3.4

s: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures companies). Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on s failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/22) $/troy oz.	382.250	386.150	–1.2
STEEL SCRAP (3/21) #1 heavy, $/ton	137.50	137.50	–1.4
COPPER (3/18) ¢/lb.	143.7	140.8	49.7
ALUMINUM (3/18) ¢/lb.	88.5	90.0	42.7
COTTON (3/18) strict low middling 1-1/16 in., ¢/lb.	108.62	107.58	50.3
OIL (3/21) $/bbl.	18.43	17.85	23.7

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
AL FUNDS (3/21)	5.97%	5.93%	3.31%
ERCIAL PAPER (3/22) 3-month	6.14	6.14	3.88
FICATES OF DEPOSIT (3/22) 3-month	6.12	6.15	3.81
MORTGAGE (3/17) 30-year	8.62	8.86	7.85
TABLE MORTGAGE (3/17) one-year	6.55	6.53	4.67
(3/22)	9.00	9.00	6.00

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/22)	88.84	89.57	104.70
GERMAN MARK (3/22)	1.40	1.39	1.66
BRITISH POUND (3/22)	1.59	1.60	1.50
FRENCH FRANC (3/22)	4.98	4.94	5.70
ITALIAN LIRA (3/22)	1714.5	1680.3	1656.8
CANADIAN DOLLAR (3/22)	1.40	1.42	1.37
MEXICAN PESO (3/22)[3]	7.210	6.725	3.153

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

lata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

MER CONFIDENCE

y, Mar. 28, 10 a.m. ▶ The Confer- oard's index of consumer confidence y fell to a reading of 97.3 in March, 9 in February. That's the median t of economists surveyed by MMS tional, a division of McGraw-Hill Inc. cline is suggested by the reported he University of Michigan's prelimi- rvey of consumer sentiment for The expected dip in March would hat the confidence index has fallen e consecutive months. Consumers ving more worried about job pros- ow that the economy shows signs of s in response to the interest-rate y the Federal Reserve.

NEW SINGLE-FAMILY HOME SALES

Wednesday, Mar. 29, 10 a.m. ▶ The MMS economists expect that new-home sales fell to an annual rate of 650,000 in February, from a 679,000 pace in January. The decline is indicated by the fall in single-family housing starts. However, because of the recent drop in long-term rates, mortgage applications to buy a home have risen in February and early March. So, even if sales fell in February, they may rebound temporarily in March or April.

CORPORATE PROFITS

Friday, Mar. 31, 8:30 a.m. ▶ Along with its final revision to fourth-quarter economic growth—expected to remain at an annual rate of 4.6%—the Commerce Dept. will also report on corporate earnings. Aftertax corporate profits in the fourth quarter likely increased by 3.3% from the third quarter, say the MMS economists. That would be about 12% above the level of profits in the last quarter of 1993.

FACTORY INVENTORIES

Friday, Mar. 31, 10 a.m. ▶ Manufacturing inventories probably changed little in February after they jumped an unexpected 1% in January. That's indicated by the slowdown in the growth of factory output. Sluggish consumer demand is prompting manufacturers to cut back on production and stock levels.

U.S. Savings Bonds Are Now Tax Free For College. Good News Today. Better News In 18 Years.

If the cost of a college education seems expensive now, imagine what it will be in 18 years. That's why Bonds bought for your child's education can be completely tax free. Start buying Bonds today at your local bank, or ask about the Payroll Savings Plan at work.

U.S. Savings Bonds

The Great American Investment

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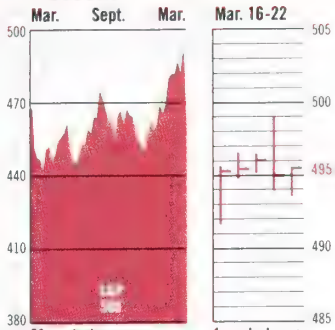
vestment Figures of the Week

NTARY

er-than-expected retail ort dimmed hopes for the of slow economic growth. ces fell, pushing the yield)-year Treasury up to he stock market flirted 20's record high, falling t at 4083. The dollar re- veak, but a strong German sted the GAM Global and onal funds. The funds, ve 55% in European ent bonds, are hedged the mark. GAM Global is than 15% in the past s shown on this page.

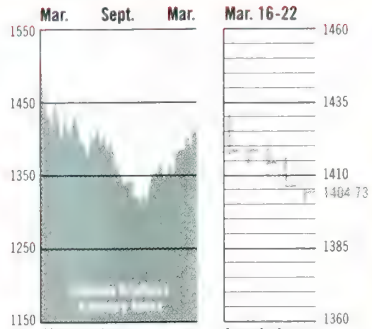
STOCKS



52-week change +5.8%

1-week change +0.8%

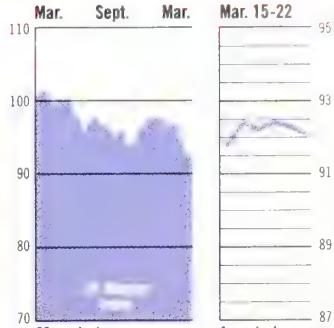
BONDS



52-week change −5.6%

1-week change −1.1%

THE DOLLAR



52-week change −9.0%

1-week change +0.3%

KET ANALYSIS

ICKS	Latest	% change Week	52-week
ES INDUSTRIALS	4083.0	1.1	5.5
COMPANIES (S&P MidCap Index)	179.7	−0.5	−2.0
IMPANIES (Russell 2000)	256.8	−0.2	−5.0
ANIES (Russell 3000)	282.2	0.5	3.6

N STOCKS	Latest	% change (local currency) Week	52-week
FINANCIAL TIMES 100)	3139.7	3.0	−0.5
IKKEI INDEX)	15,904.9	−4.6	−20.3
(TSE COMPOSITE)	4263.2	1.1	−7.5

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.85%	5.89%	3.55%
30-YEAR TREASURY BOND YIELD	7.45%	7.36%	6.89%
S&P 500 DIVIDEND YIELD	2.65%	2.68%	2.79%
S&P 500 PRICE/EARNINGS RATIO	16.5	16.3	21.3

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	464.8	463.9	Positive
Stocks above 200-day moving average	53.0%	53.0%	Neutral
Speculative sentiment: Put/call ratio	0.67	0.70r	Neutral
Insider sentiment: Vickers sell/buy ratio	0.94	0.83	Positive

BLOOMBERG FINANCIAL MARKETS

STRY GROUPS

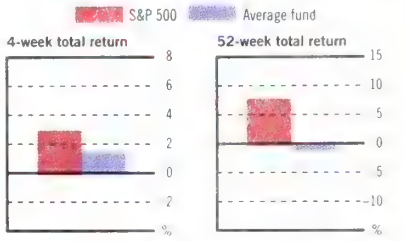
EEK LEADERS	% change 4-week	52-week	Strongest stock in group	% change 4-week	52-week	Price
:CO	13.1	22.9	PHILIP MORRIS	15.6	28.3	66 7/8
:AL PRODUCTS AND SUPPLIES	11.2	35.9	BOSTON SCIENTIFIC	32.0	59.7	24 3/4
UTER SOFTWARE	11.1	20.4	MICROSOFT	16.8	66.4	70 1/2
MINING	10.8	−8.3	NEWMONT MINING	14.7	−6.4	40 7/8
E EQUIPMENT AND SUPPLIES	8.0	5.9	XEROX	9.0	18.0	118

EEK LAGGARDS	% change 4-week	52-week	Weakest stock in group	% change 4-week	52-week	Price
I CONTAINERS	−7.5	14.7	TEMPLE-INLAND	−10.3	−7.8	44 5/8
S	−6.9	−10.0	ASARCO	−13.3	−9.3	24 1/2
	−6.2	−18.7	INLAND STEEL INDUSTRIES	−18.9	−29.8	24 1/8
IEL MANUFACTURING	−5.7	−9.4	LIZ CLAIBORNE	−11.2	−34.3	14 7/8
:T PRODUCTS	−5.4	4.1	LOUISIANA-PACIFIC	−11.6	−36.1	25 5/8

UAL FUNDS

MORNINGSTAR INC

S k total return	%	LAGGARDS Four-week total return	%
:LOBAL	15.4	WRIGHT EQUIFUND-MEXICO NATL. FID. EQTY.	−25.4
NTERNATIONAL	11.7	MORGAN STANLEY LATIN AMERICAN B	−14.0
MIDAS GOLD	11.1	MERRILL LYNCH LATIN AMERICA C	−12.1
total return	**%**	**52-week total return**	**%**
ITY SELECT HEALTH CARE	37.2	MONITREND GOLD	−47.6
T SMALLER COMPANIES	28.5	HERCULES LATIN AMERICAN VALUE	−46.8
MAN COMMUNICATIONS & INFORM. A	28.3	BT INVESTMENT LATIN AMERICAN EQUITY	−45.9



ATIVE PORTFOLIOS

DRI/McGRAW-HILL

nounts represent the value of $10,000 one year ago portfolio

ages indicate total returns

Foreign stocks	U.S. stocks	Money market fund	Treasury bonds	Gold
$10,925	$10,868	$10,507	$10,033	$9,785
+1.09%	+0.44%	+0.22%	−1.16%	−0.47%

this page are as of market close Wednesday, Mar. 22, 1995, unless otherwise indicat- y groups include S&P 500 companies only; performance and share prices are as of mar- ket close Mar 21. Mutual fund returns are as of Mar. 17. Relative portfolios are valued as of Mar. 21. A more detailed explanation of this page is available on request. r=revised NA=Not available

HAVE OUR POLITICAL PARTIES NO SHAME?

Pandering is a harsh term, but for characterizing current Washington politics, it is entirely appropriate. At a time when the U. S. cries out for honest leadership in digging its way out of two decades worth of debt—$5 trillion worth, to be exact—both Republicans and Democrats are playing a politics-as-usual game of pandering to constituent interests. Instead of taking the nation's overall interests to heart, politicians are maneuvering their tactical pawns on the chessboard of the 1996 Presidential election. It really stinks.

Take the GOP. Just months after riding into town on the great promise of dramatically altering the way things are done in Washington, the Republicans are already mired in the muck of money and votes. They're getting rolled by just about all of their constituent groups with a hand out for government dollars. Farmers? They get to keep the $27 billion annual Food Stamp Program as a federal entitlement when all other welfare programs are being block-granted to the states. And please don't tell us it's for the children. It's welfare for the farmers and votes for their representatives in the House, pure and simple. Vets? When the GOP tried to make a tiny $200 million nick in the 1995 Veterans Administration budget of $17 billion, vet lobbyists restored every penny (with President Clinton egging them on by trumping the Republicans with an offer to boost spending on the VA).

Where did the GOP find $17 billion in cuts in this year's budget? Here are a few: $1.6 billion in housing funds; $113 million in education for the disadvantaged; $38.5 million in bilingual and immigrant education; $1 billion in school lunches; $25 million for pregnant women and infant nutrition. Not only are these all Democratic constituents, they are the weakest groups in society, without PAC bucks or lobbying

These cuts are just for a one-year rescission. For t ture, the GOP plans to shape the programs into a few grants, cap the funding, and let the states deal with the problems, saving $69.5 billion over the next five years

It's not that block grants are a bad idea. Just the op Many states are doing a good job in moving people welfare rolls into the workforce and getting them to sponsible adults. It's certainly not bad to save on was corruption to curb the deficit. The fact is that the Den lost the moral high ground long ago by not practicing love on welfare recipients and turning a blind eye to c tion in set-asides and other social programs. The Repul are right in trying to radically alter the welfare state.

The problem is consistency, equity, and morality. If v is bad, it's bad for cowboys and farmers as well as w queens. Why should Nevada ranchers get taxpayer dized water when the poor in Philadelphia no longer r subsidized federal housing? Why should federal foster c cut by $150 million when families making $200,000 are uled to get a $500-per-child tax credit?

The polls show that the public is already losing faith GOP's ability to fulfill a Contract With America that stomp on the weak in favor of the privileged and po Instead of a true revolution of ideas and ideals, the cou watching the byplay of constituency politics by both p This kind of behavior can have only one effect—a m shift to a third party in 1996, fragmenting the body Both the GOP and the Democrats still have a chance t up their acts. They'd better take it.

RJR: BIG BUYOUT, BIG FIZZLE

"We were charging through the rice paddies, not stopping for anything and taking no prisoners," said Henry R. Kravis, leveraged buyout king and general partner of Kohlberg Kravis Roberts & Co., describing the bidding war for RJR Nabisco Inc. in the best-selling *Barbarians at the Gate*. Strange, how the biggest, wildest deal of the '80s, the $25 billion LBO of RJR is now so quietly coming to closure, ending a celebrated chapter of U. S. financial life (page 46).

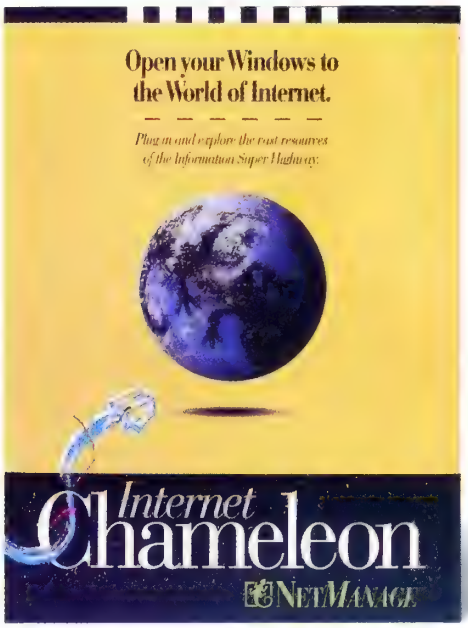
Yet, perhaps not so strange. On Mar. 20, Goldman, Sachs & Co. sold the last of KKR's shares in RJR. Not many would have believed it in 1988, but the deal's lasting legacy is turning out to be one of bitterness, especially for investors. Just check the numbers. KKR bought the company at $5.62 a share on an adjusted cost basis, and it unloaded its final 8% stake for a mere $5.73 seven years later. For investors such as large public pension funds, the RJR Nabisco deal turned out to be a bust. The bidding war with CEO Ross Johnson and his management team pushed the company's price far higher than its t onomic worth, especially in light of the company's tob ability and the later impact of Marlboro Friday.

But that's the nature of risk, right? Not for every turns out that the risk was not shared equally by all t ties to the deal. While KKR didn't make much of a profit own direct investment in RJR, just like other investo firm extracted steep fees for services rendered. It re $75 million in transaction fees for the original deal, $60 for advising the company over the years, and $279 mill additional management fees. Investors? Well, they g short end of the stick, and KKR gets to control the mone put into KKR's LBO fund until 2000. KKR is putting the into Borden stock, banking on a big payoff down the

Are there any lessons from all this? Perhaps onl greed often comes with a price tag. Investors might that the next time they get carried away.

THE INTERNET

YOUR COMPETITION'S ALREADY THERE, ARE YOU?



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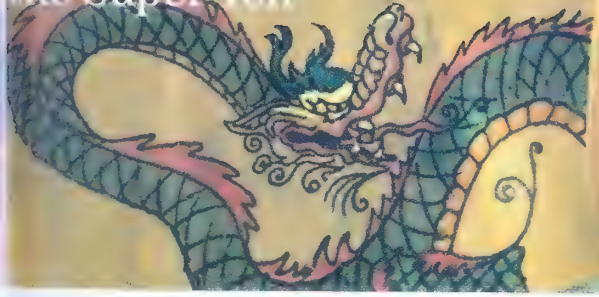
JAPAN'S NEW IDENTITY

PAGE 108

Disenchanted with the U.S. and struggling at home, Japan is rapidly integrating itself into the rest of Asia. The whole world will feel the effects.

Plus: Coping with the Super Yen



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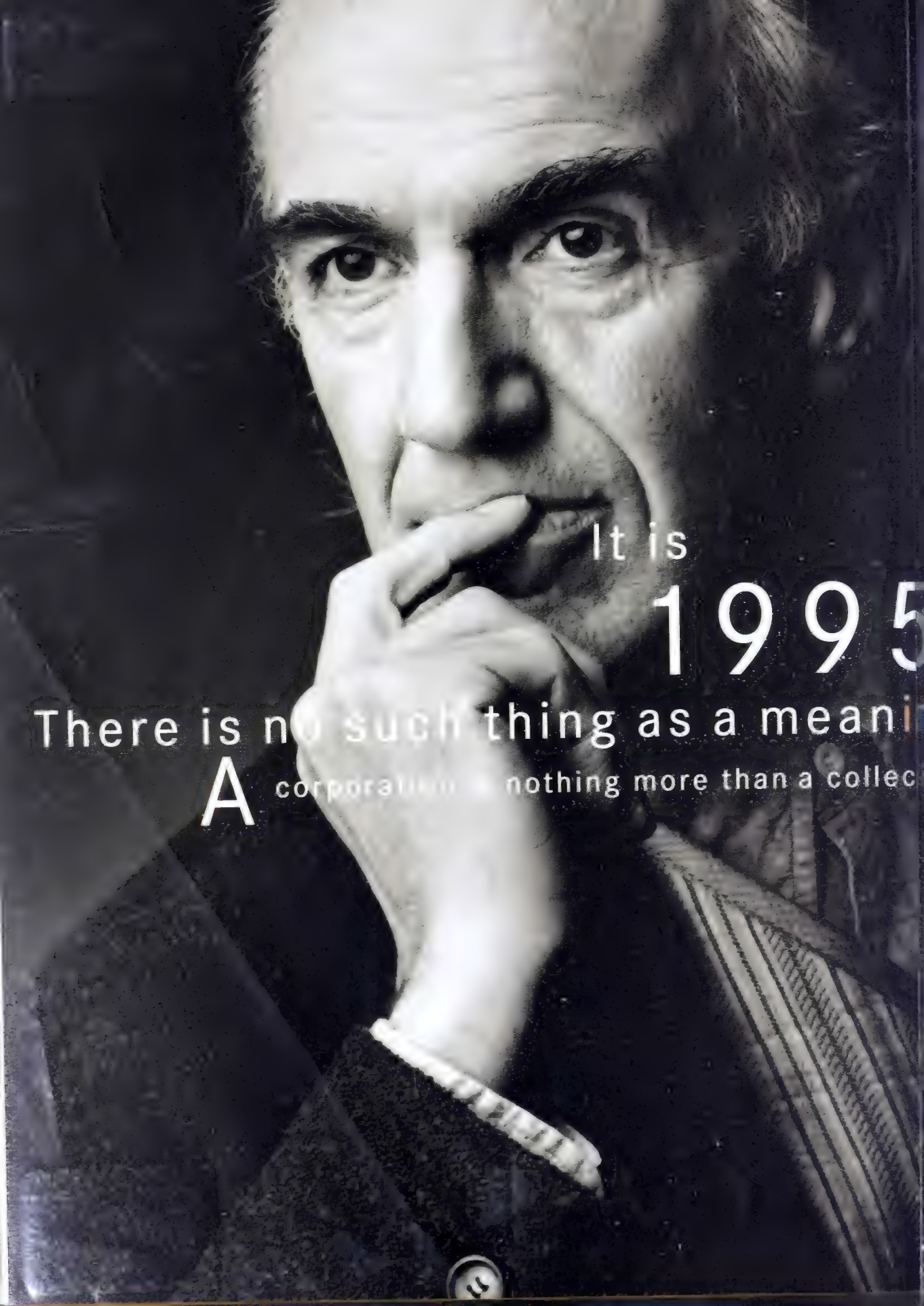
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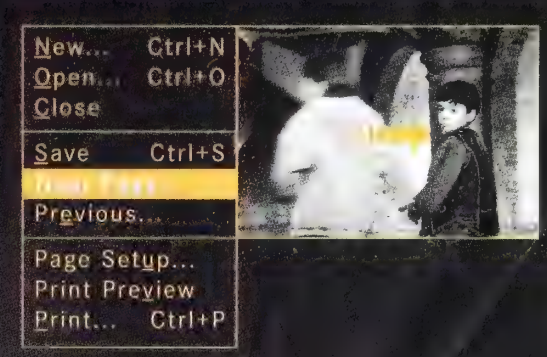
There is no such thing as a meani
A corporation is nothing more than a collec



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BusinessWeek

APRIL 10, 1995

COVER STO

JAPAN'S NE
IDENTITY
As growth in t
West lags, Tok
is hitching its
future to
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subservience
the U.S. page 108

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ohn Malone is still short of cash for ey pieces of his envisioned able/telephone system

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The reality is that no one really knows ow, if, or when the competition will volve"

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

RETIRING: *Who will replace Gault?*

HONCHOS

GOODYEAR NEEDS A NEW BIG WHEEL

WHO WILL REPLACE STANLEY Gault as CEO of Goodyear Tire & Rubber when he retires at yearend? The answer may come as early as Apr. 10 at the company's annual meeting in Akron.

The best bet: Egyptian-born Sam Gibara, the personable chief of the company's North American Tire unit. Gibara, 55, has run the company's European and Canadian operations, helped Gault write its current strategy, and served as chief financial officer. The multilingual Gibara most recently fashioned a new approach to Goodyear's dealers. Some were upset with its selling name-brand tires to big rivals such as Discount Tire.

Still, he isn't a lock. Although Gault has said he would prefer an internal candidate, he's not excluding an outsider. Another insider who might move up as both Gault and President Hoyt Wells retire is European chief Bill Sharp, 53. Sharp climbed the production ranks and, like Gibara before him, has turned in a fine record running the European business. Gault, 69, became CEO in 1991 after serving as a director. The former Rubbermaid CEO came out of retirement to turn around the company, which he did well, producing record 1994 sales and earnings from continuing operations. *Zachary Schiller*

HALLS OF IVY

CAMPUS UNREST OVER PAY, NOT POLITICS

LOW-PAID GRADUATE TEACHING assistants unite. On Apr. 3, graduate students at Yale University will start a week-long strike. And grad students at as many as four University of California campuses aim to strike later in the month.

ORGANIZER: *Yale's Brown*

Spurred by budget cuts and tuition hikes, grad students are becoming militant about being workhorses who teach 50% to 60% of undergraduate classes. Currently, only seven universities—all public—recognize graduate-student unions. Unions at 15 campuses are demanding recognition, but most universities won't grant it. "Yale relies on graduate students as a low-wage labor pool," says Robin Brown, the Yale union's head and a comparative literature student.

Agitating has won some gains. Yale's 1,100 grad students didn't get union recognition in a 1992 walkout, but they did win a 28% pay hike, to $9,600 a year today. And a 1989 Berkeley strike won grad students free health care and a 50% tuition rebate. *Aaron Bernstein*

TALK SHOW "You can't be a good watchdog if you only go on patrol three times a year."

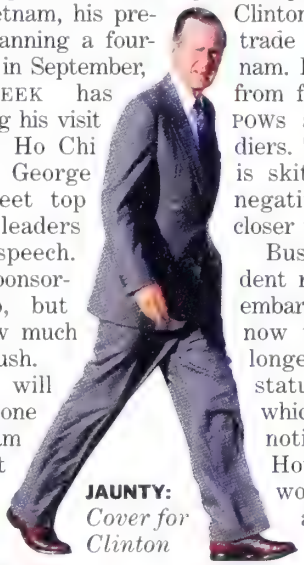
—Securities & Exchange Commission Chairman Arthur Levitt, urging corporate boards to meet more often and be more vigilant

NEW WORLD ORDER

MR. BUSH HEADS FOR HANOI

WHILE BILL CLINTON WEIGHS the political pros and cons of restoring diplomatic relations with Vietnam, his predecessor is planning a four-day trip there in September, BUSINESS WEEK has learned. During his visit to Hanoi and Ho Chi Minh City, George Bush will meet top Vietnamese leaders and give a speech. Citibank is sponsoring the trip, but won't say how much it is paying Bush.

His visit will mark a milestone in U.S.-Vietnam relations. Not since Lyndon Johnson's 1966 trip to Viet-



JAUNTY: *Cover for Clinton*

nam has a U.S. President s foot there.

Bush's jaunt could gi Clinton political cover to r new full diplomatic and ec nomic ties with its form foe. U.S. companies have quiet campaign for that afo Clinton last year lifted trade embargo on Vi nam. But this drew f from families of form POWs and missing s diers. The White Hou is skittish about mo negative fallout fr closer ties to Hanoi.

Bush, who as Pre dent refused to lift t embargo, seems to thi now that Vietnam longer merits pari status. His offi which left it to Citi notify the Wh House of the tr won't say mu about it publicly *Amy Born*

WHEELER-DEALERS

FROM CON TO CONVERT?

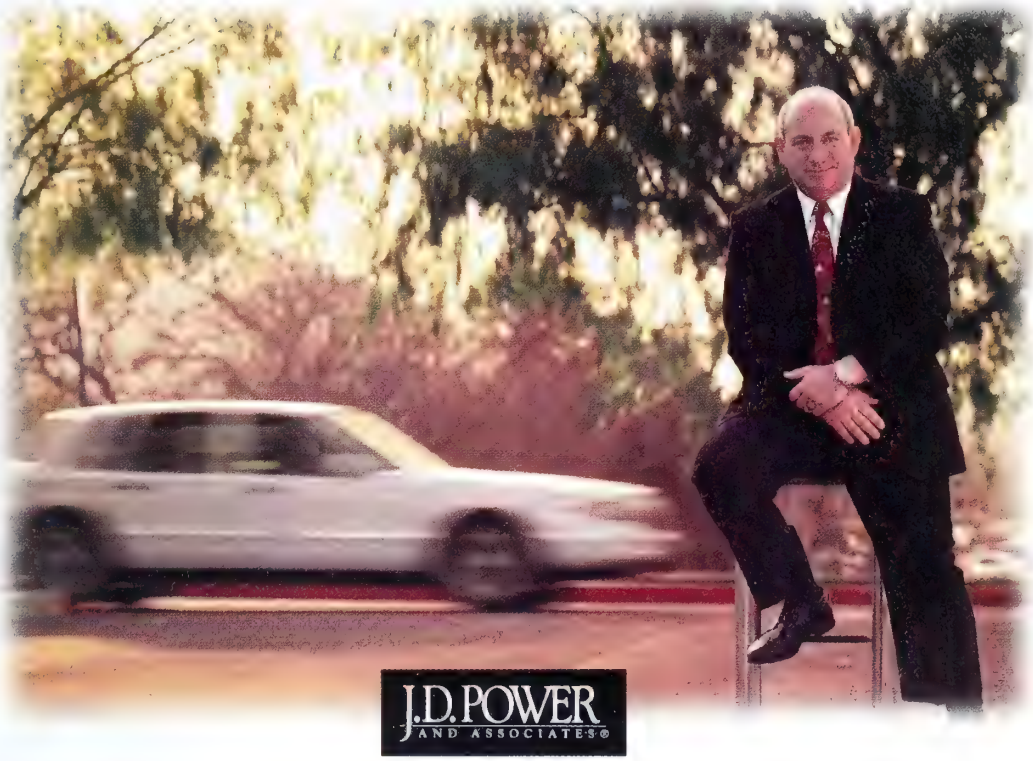
CONVICTED CON MAN BARRY Minkow is back—and set to enter the ministry. Minkow, 29, says he found Christ during his seven-year jail stint for masterminding one of the largest frauds ever. He does not see himself as a humble man of the cloth. "I'd just like to do what Billy Graham does," says Minkow, who is interested in a radio ministry.

PREACHING: *Minkow*

First, though, there's the matter of the $26 million he owes his victims, who lent to or invested in his ZZZZ Best carpet-cleaning business, which produced little more than fake revenues. Minkow says he will turn over profits from his new book, *Clean Swe A Story of Compromise, C ruption, Collapse, and Con back.* Ditto a portion of t speaking fees he says h earning doing antifraud se inars for accountants.

Despite Minkow's new t to God, he has not quite f saken mammon. He's seeki a private ruli from the Inter Revenue Serv on whether can write off t victim paymen And he thinks owes them or $11 million, b cause ZZZZ Be lawyers and a countants have ready made so restitution. So he a chang man? U.S. District Jud Dickran Tevrizian, who s Minkow had "no conscien when sentencing him in 19 still isn't sure. "I take wl he says with a grain of sal says Tevrizian. *Kevin Ke*

J.D. Power and Associates Drives Decisions with the SAS® System



Will the cars on the drawing board today meet consumer demands of tomorrow? That's the question facing J.D. Power and Associates. The answers are coming from the SAS System.

"We produce a monthly forecast of car and truck sales for about 300 different vehicles," says Jon Rosenthal, Manager of Automotive Forecasting for J.D. Power and Associates. "Each vehicle is forecasted by month for five years beyond the current year. Right now I'm forecasting through the year 2000."

The SAS System Fits Our Business

"The SAS System is the fuel behind those forecasts...our software of choice for analyzing sales, economic, and auto industry data and then reporting what we've learned," adds Rosenthal. "Before the SAS System, much of the forecasting was done by hand. To make our forecasts credible, we had to have a credible system. One that made it easy to build applications and put them to work across our computing environments. We've got minis, Macs, desktop publishing, and a lot of spreadsheets. The SAS System fits the way we do business."

The Bottom Line is Information

Now that the forecasting model is up and running, Rosenthal and his staff are using the SAS System to build an interactive database. "The Power Information Network will allow an auto dealer or manufacturer to go online and get market information," Rosenthal explains. "When released, subscribers will be able to select from a long menu of reports and data. The versatility of the SAS System is crucial in developing the reports."

"The bottom line is this: applications are being developed with the SAS System that will deliver the most up-to-date information to those who make decisions for the automotive industry," says Rosenthal. "If manufacturers and dealers can get their hands on accurate market information and predictions, they have a much better chance of meeting customers' needs down the road."

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Up Front

EDIFICE COMPLEX

CALL IT THE GREAT WHITE-SHOE WAY

TIMES SQUARE: *Morgan Stanley's digs (tall tower, left) will get glitzy*

MORGAN STANLEY IS SET TO light up Broadway with its new 41-story headquarters building. Sitting in the heart of New York's neon-flashing Times Square, at Broadway and 47th Street, at least the venerable firm won't blaze its name out at tourists. Instead, there will be a high-tech "information wall." This includes two 40-foot cylindrical drums—one, a flattened globe with Morgan Stanley office locations marked; the other, a similar globe or a video display. Also, three, block-long, 18-foot-high moving news tickers will carry real-time market data. Plus, another display will give currency-exchange quotes.

Now, don't think going glitz is necessarily Morgan Stanley's idea (the firm declined to comment). Zoning rules require all buildings around Times Square to sport large, bright signs. The display, done by the century-old Times Square specialist Artkraft Strauss Signs, should be ready by September's move-in date. *Suzanne Woolley*

RANK AND FILE

THE TEAMSTERS' SHOPPERS FROM HELL

NOW HERE'S A NOVEL LABOR tactic: a shop-in. That's what Teamsters Local Union 122, deadlocked in bargaining with beer distributor August A. Busch, did to five Boston-area liquor stores it supplies. The distributor, owned by Anheuser-Busch, claims Teamsters disrupted business in November by crowding into stores to buy such things as potato chips using $20 and $50 bills. The company says this created long lines and depleted change, driving away business. The union says members were merely discussing grievances with customers.

This Bud's NOT for you!

The National Labor Relations Board got a U.S. District Court to temporarily enjoin the Teamsters' action. The issue of a permanent bar on the practice, which Busch calls an illegal secondary boycott, is to go before the five-member NLRB May 1. Contract talks are still going on between the company and the union, which has an anti-Busch bumper sticker slamming "Budweasel." □

DRAWN & QUARTERED

AFTERLIVES

A HARD LOOK AT AN EX-CEO'S HARD LUCK

ROBERT BUCKLEY, RICH OR broke? A judge is to decide this question Apr. 7 about the former chairman of Allegheny International. The company, since renamed Sunbeam-Oster, says Buckley is still loaded—and wants him to repay, with interest, a $2.9 million low-interest loan he took from it in 1980. Sunbeam-Oster claims he is hiding assets. Buckley denies it. The court will rule on whether Buckley's 1993 bankruptcy filing frees him from repaying.

BUCKLEY: *Says he's broke*

Buckley, 71, has seen hard times since resigning under fire in 1986. He has had three strokes, and now, says his lawyer, Leslie Gern Cloyd, "he's confused about a gre number of things." Still, s maintains Sunbeam ow Buckley more than Buckl owes Sunbeam. Her reaso ing: The company stripp him of most benefi and shouldn't hav He filed a claim f at least $6 milli against Sunbea but another jud ruled against him 1993. Gern Clo says he lacked t funds to appeal.

Buckley's task to show how his n worth fell from apparent $4.9 million to n nus $2.2 million from 1989 1993. In court papers, lawyer says the accountar who prepared his financi records exaggerated wealth, overlooked asset sal he had made, and includ his wife's property. The a sets, she contends, ha shriveled to his pensio worth a total of $776,000, a his $258,000 Vero Bea (Fla.) condo, both out of cre itors' reach. Sold to pay leg and living costs, the pape say, are such items as $100,000 Bentley.

Sunbeam argues that, ev as he was filing bankrupt he paid big bills at plac such as the Riomar B Yacht Club in Vero Beac where he's a member. Bu says his lawyer: "He does have a yacht." *Stephen Bak*

THE BIG PICTURE

DOWNSIZING THE BOARD

Payrolls aren't the only things being pared. Boards of directors, too, are under pressure to be more efficient and responsive. Since 1990, the average board size has dropped one person. And the portion of outside directors has risen two points since 1992, to 72%.

DATA: *DIRECTORSHIP*

FOOTNOTES O'Reilly & Associates estimate of Internauts who bought goods based on Net info: 75%. Cars: 12%. Music: 50%

We were asked to explain in
ten words or less why our sense
of pride, passion, commitment and caring
has changed so dramatically
these past eight months.
The answer is obvious:

"We don't jus

(Please note that we only used half of the allotted ten words. But t

A lot of things have changed since the people who built United Airlines became the owners of United Airlines. Our on-time performance is the highest in our history. We're doing a far better job of speeding your bags to and from your flights. Complaints are down. Compliments are up.

work here."

ause we're doing everything a lot more efficiently these days.)

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Readers Report

HIGH PRAISE FOR HARVARD'S DEAN McARTHUR

I am chairman of the Committee to Visit the Graduate School of Business Administration at Harvard. The unanimous sense of our committee is that your writers utterly failed to grasp the enormous and positive impact that the retiring dean, John H. McArthur, has had—not only on his school but on Harvard and higher education in general ("*Goodbye, Mr. Chips* it ain't," News: Analysis & Commentary, Mar. 20). We simply do not recognize the man and the institution described in your pages.

Thomas S. Murphy
Chairman
Capital Cities/ABC Inc.
New York

The article on retiring Dean John McArthur omitted some important achievements. He has led the successful effort to assemble a stellar faculty, whose research and teaching have increasing influence in business and in management education. Harvard business school under his leadership has expanded its commitment to producing first-class management teaching materials in the form of cases and has made them freely available to every other business school in the world. This essential support and the generosity behind it are not acknowledged by the anonymously quoted critics, former deans of the schools, who are the beneficiaries.

A. Michael Spence, Dean
Graduate School of Business
Stanford University
Palo Alto, Calif.

Your appraisal of John McArthur's tenure is inaccurate and unfair. As one who served six years as dean of Columbia Business School, I had the pleasure and the challenge of competing with John.

He took a faculty widely viewed as obsolete and inbred and rebuilt it by recruiting senior faculty from outside the university and by focusing junior hiring on high-potential PhDs from other leading institutions. He pushed the faculty in the direction of major MBA curriculum change while accepting the frustrations [illegible] delay in order to achieve necessary co[illegible] sensus. He is one of those rare cre[illegible] tures: an effective leader of academics.

John C. Burton, Profess[illegible]
Graduate School of Busine[illegible]
Columbia Universit[illegible]
New Yo[illegible]

THE 'FDA DEFENSE' APPLIES ONLY TO PUNITIVE DAMAGES

Robert Kuttner's article on produc[illegible] liability reform, "The trumped-up ca[illegible] against damage awards" (Economic Vie[illegible] point, Mar. 20), misstated one provision [illegible] the reform bill recently passed by t[illegible] House of Representatives.

The so-called FDA provision would pr[illegible] tect manufacturers of products approv[illegible] by the Food & Drug Administration on[illegible] from punitive damages, and only if t[illegible] manufacturer had not withheld inform[illegible] tion from the FDA. Plaintiffs could st[illegible] collect economic damages and compe[illegible] sation for pain and suffering.

Gerald J. Mossingh[illegible]
Preside[illegible]
Pharmaceutical Research [illegible]
Manufacturers of Ameri[illegible]
Washingt[illegible]

THE DOLLAR: HOW TO FIGHT BACK

Christopher Farrell misses the point [illegible] "The dollar doesn't deserve this thum[illegible] ing" (Cover Story, Mar. 20). The fi[illegible] problem for the dollar is the decade-lo[illegible] reversal of the U.S. from world's large[illegible] creditor to the world's largest debt[illegible] Secondly, the policy of benign neglect t[illegible] ward the dollar has made it less and le[illegible] attractive for foreign investors to co[illegible] tinue financing the U.S.

The policy prescription is clear. T[illegible] current-account deficit needs to be r[illegible] duced. There needs to be further fede[illegible] al budget-deficit reduction. And the t[illegible] system should encourage higher sa[illegible] ings and less consumption. The dange[illegible] of downplaying a weak dollar will be [illegible] even weaker dollar, further erosion [illegible] the dollar's reserve-currency status, a[illegible] ultimately higher interest rates a[illegible]

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In the end, we came up with more than a few improvements. Making ProLinea even harder to distinguish from more expensive machines. The fastest processors. Easy upgradability. Simplified maintenance. Features that make it easy to live with on the day you install it, and for years to come.

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And that should certainly put your mind at ease.

COMPAQ

Traditionally, the phrase "better value" has always meant someone's cut corners to give you a better price. At Compaq, however, we like to take a different approach.

The result is the new Compaq ProLinea: a family of computers that not only offers affordable prices, it pushes technology many steps ahead. Twelve, to be exact:

Number One. Our first improvement is something you'll notice before you even buy a ProLinea. You get to choose the processor you want—from very fast (486DX2/50MHz) to blindingly fast (Pentium/100MHz). This way, you don't have to buy more performance than you really need. And it's designed so that you can upgrade whenever you want.

Number Two. You may be familiar with the new standard bus architecture called PCI. Basically, it improves upon the previous technology by expanding the data path to 32 bits and radically speeding the flow of information to expansion cards and peripherals. And guess what: Compaq has already enhanced this standard with our new TriFlex/PCI architecture—which is built into every ProLinea model.

Number Three. The PCI architecture also boosts the performance of the graphics subsystem. So even if you're working with general productivity applications like word processors and spreadsheets, you can enjoy a crisp, responsive high-resolution display. If your uses demand more, select 586-class models are now available with higher-performance VRAM graphics.

Number Four. Forgive the acronyms, but there's also a PCI local bus IDE interface. This not only pays off in improved disk performance, but it supports up to four storage devices. Which means you can easily add another hard drive, tape backup or CD-ROM drive when needed.

Number Five. As long as we're on the subject of CD-ROM, multimedia ProLinea models now come with our new QuadSpeed drive (along wi Enhanced Business Audio). This giv you faster access to the rich and v references available on CD-RO today, from national directories archives of business publications.

Number Six. However large a ha drive may be, there are those wo take it as a personal challenge to it up. With the new ProLinea PC however, we're determined to ma that as difficult as possible. You c choose a configuration with a d capacity of 270MB, 420MB 720MB. Any of which should put well ahead of your burgeoning fi

Number Seven. ProLinea comes w 8MB or 16MB of RAM, depending the model. And you can easily exp it to 136MB or 192MB—enough take advantage of new 32-bit opera systems, run several programs at o and work with spreadsheets the of Madison Square Garden.

Number Eight. ProLinea is filled v features designed to make your

Like Most PC Buyers, You'

"Better Value," So We've Clever

COMPAQ

ier. It's not only pre-loaded with an tensive online help system and omated setup software, it now has lesigned documentation to help quickly pinpoint information. It's o optimized to run new operating tems like Windows 95, which will ke your future computing easier l. Every model supports the Plug-d-Play standard that will bring a w simplicity to the process of ling expansion cards. (If you add

Number Ten. The new ProLinea PCs have been designed so you can get inside without any special tools. The system board slides out to accept extra memory or a processor upgrade. The hard drive cage swings out so you can swap disks without reaching into inaccessible, finger-bruising areas. And when you snap in a new Compaq hard drive, you won't have to configure any enigmatic jumpers. When you connect the

become necessary, installing them will be no more difficult than running a software utility and clicking a few buttons on the screen.

Number Twelve. And what about the environment? Using a ProLinea won't by itself repair the ozone layer, but it's certainly a step in the right direction. For the sake of the atmosphere—and everyone who breathes it—our PC manufacturing process is completely CFC-free. And every model is now

OBABLY SICK OF HEARING SGUISED IT AS 12 IMPROVEMENTS.

iew network interface card, for imple, ProLinea will sense the nge and automatically reconfigure software to support it.)

mber Nine. You decide exactly how andable you want your ProLinea e. You can select a desktop model h three expansion slots and three ansion bays or a model with four each. Or you can choose a five-, five-bay mini-tower model offers maximum expandability hout taking up too ch of your space.

cables, the settings have the good sense to take care of themselves.

Number Eleven. The ProLinea system board now incorporates Flash ROM technology. That means basic system ROM can be updated without major PC surgery. If future system updates should ever

Energy Star-compliant, which means less wasted energy for the planet and less wasted money on your power bill.

These are the improvements that define our approach to value. (We think you'll agree, it's a lot more rewarding than cutting corners.)

In fact, our new ProLinea does an excellent job of expressing a core belief at Compaq: That is, the smartest way to build better value is to build a better computer.

Introducing the latest line of ProLinea computers

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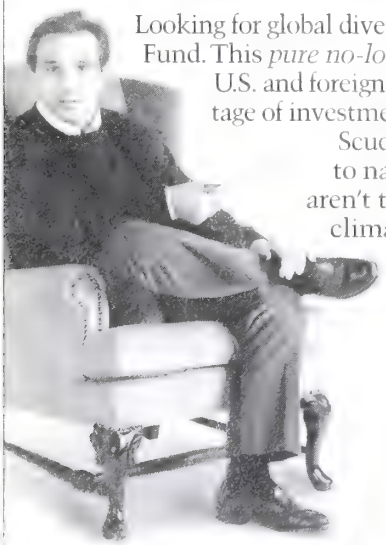

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CORRECTIONS & CLARIFICATIONS

"Who'll be the first global phone company?" (Information Processing, Mar. 27) incorrectly stated several ownership positions. The equity ownership of the WorldPartners alliance is made up of AT&T (40%), KDD (24%), Unisource (20%), and Singapore Telecom (16%). AT&T plans to take a 40% stake in a joint venture called Uniworld, of which Unisource will own 60%. And Telefónica of Spain is not yet a shareholder of the Unisource alliance—European regulatory approvals are still pending.

"Programming without tears" (Technology & You, Apr. 3) gave an incorrect phone number for software company Franz Inc. The correct number is 510 548-3600.

"How frequent fliers can beat the clock" (Personal Business, Jan. 23) should have said that United Airlines Inc. increased its mileage requirements for free travel on certain foreign flights on Feb. 1, not Apr. 1.

lower economic activity in the U. S
Christopher Igg
Chase Manhattan Ban
New Yor

POLITICS AND THE SCHOOL LUNCHROOM

I had just been listening to Rush Lin baugh complain about the press whe your magazine arrived. "Onward, buc get soldiers" (News: Analysis & Con mentary, Mar. 20) is the epitome of wha he was talking about.

You call it "a crushing defeat for th balanced budget." One vote a crushin defeat? And your picture of the wa with four french fries is really calculatin

Chuck Proct
Apple Valley, Min

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LINDSIDE
Vhy Japan Is Still on Track to Overtake the .S. by the Year 2000
y Eamonn Fingleton
loughton Mifflin • 406pp • $27.50

JAPAN: WHO GOVERNS?
The Rise of the Developmental State
By Chalmers Johnson
Norton • 384pp • $25

JAPAN MAY BE JUST CATCHING ITS BREATH

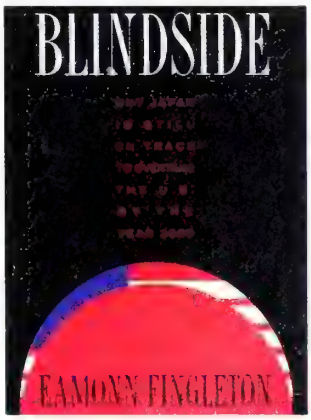
Tokyo's stock market has lost 15% of its value in three months, private economists are dismissing the government's modest growth estimates as nflated, and the mighty yen has Japanese xporters writhing in pain. Is Japan on he ropes? Not by a long shot, say these wo authors. Instead, each makes a forceul case that Japan has refined an ecoomic system that's markedly different rom Western-style capitalism and that vill continue to serve the country well vhile giving competitors fits.

Most striking is Eamonn Fingleton's olemic. *Blindside* is prodigiously reearched and engagingly argued. Notng that the West always seems to nderestimate Japan, the Irish finanial journalist hammers the notion that permanent hardening of arteries is nderway. This myth, he contends, tems from Western hubris, deliberate fforts by the Japanese to play down neir strengths, and widely differing ssumptions.

"Japanese leaders do not share the Vestern view that the economy should e primarily run to proide citizens with a good fe," Fingleton writes. Rather, they see the apanese economy mainly s an instrument of pow-. And the mighty yen, hich has trebled against e dollar since the early 70s, is one of the princial levers of that power."

Fingleton goes on to xplain how the strong en benefits Japan, conary to Western convenonal wisdom and deite the howls from Japanese xporters. It allows Japan to hire top Vestern scientists, inventors, and softare writers and to spread foreign d—and new export markets—around e globe. But this is only a warm-up r the book's sweeping analysis of pan's competitive strengths.

Although some of the ingredients—search and development collectives, targeted industries, industrial cartels—will sound familiar to those who have followed Japan, new ideas abound. Fingleton shows, for example, how Japan's high airfares underwrite the country's auto industry through an elaborate system of cross-subsidies in which service industries support manufacturers. He demonstrates how Japan's successful pursuit of worldwide "monopolies" in key industries, such as production of flat-panel computer displays, gives it powerful leverage over U.S. industry. Japan, posits Fingleton, has created a system that "is not capitalism at all but a new formulation that is as sharp and portentous a break from capitalism as capitalism was from feudalism."



Along the way, Fingleton disabuses Western readers of any assumptions that Japan suffers from the costs connected with the inefficiency of cartels, lifetime employment, and low productivity in its distribution, banking, and white-collar sectors. To the contrary, he says, cartels eliminate wasteful duplication of R&D and generate profits that are plowed back into new manufacturing technology, while lifetime employment ensures a loyal workforce that won't oppose automation. Low service-sector productivity, he insists, is a myth.

Occasionally, Fingleton indulges in alarmism, overstatement, and conspiracy theories. "By pumping its huge savings single-mindedly into a narrow range of high-growth, monopolistic industries," he writes, "Japan's economic leaders can realistically aim to control the world's economic future." This is going too far, as are sweeping statements regarding the unique nature of Japanese capitalism. Fingleton fudges on questions of comparative productivity and Japan's high prices, and he doesn't seriously address potential new competitive threats to key Japanese industries, such as from Korea. But overall, this startling, fresh take on the world's second-largest economy is well worth absorbing.

Chalmers Johnson long has been America's most penetrating, provocative analyst of Japan's political economy. For those who have missed out on his previous works, *Japan: Who Governs?* offers a chance to catch up. That's because this book is a collection of Johnson's essays dating from 1974.

Since the entries span so many years, some passages are noticeably out of date or repetitious. And because the essays jump from one topic to another, the book feels disjointed. But Johnson's writing is usually felicitous, the scholarship superb, and the analysis persuasive and enlightening.

If the book has a central theme, it's an elaboration and vindication of the "revisionist" school of Japan thinking that came to the fore in 1989. Back then, Johnson emerged as the "godfather" of the revisionists, whose basic analysis was that Japan's politico-economic system differs far more from the Western model than most Westerners realized.

This book provides an accessible, handy compilation of insights that undergird revisionism. These include explanations of Japan's creative theory and practice of market economics, industrial policy, managerial autonomy, mercantilism, and politics. Johnson's chapter on *amakudari*, or the "descent from heaven" by bureaucrats into private industry, is delicious. As usual, he is merciless in his denigration of mainstream, neoclassical economics as a useful tool for understanding the world.

A few essays will seem obscure and irrelevant to nonexperts, such as one on the translation of Japanese words into English. But juicy insights, such as Johnson's explanation of structural corruption as it's revealed by the career of the late Prime Minister Kakuei Tanaka, provide more than enough meat to chew on and relish.

BY ROBERT NEFF

Tokyo Bureau Chief Neff coined the term "revisionism" as applied to Japan.

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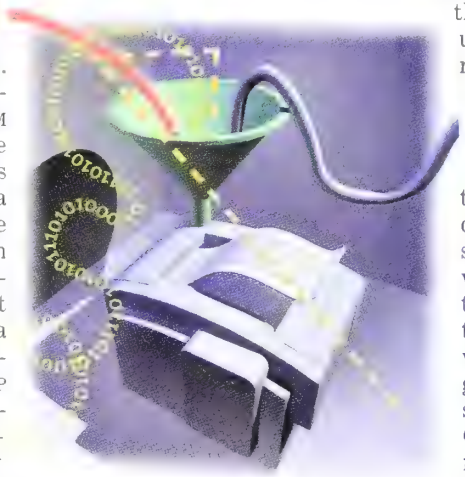
LOOK, MA—WIRELESS PRINTING

You check into the office after a road trip with a laptop full of spreadsheets and memos to be printed. You face a daunting task. The alternatives—copying files to floppy disks, hooking your laptop up to a network, fumbling with cables—are all awkward. What if you could just point your notebook at your printer and have the pages come pouring out?

That day is here. OmniBooks from Hewlett-Packard and IBM ThinkPads have come for some time with ports that can send data to a printer using the same infrared light used in television remote controls. But until now, it has been like having a remote without the television. The new HP LaserJet 5P printer closes the loop, taking wireless commands from any device built to the new Infrared Data Assn. (IrDA) standard.



GROOVY GRAPHICS. The wireless link, a breakthrough for portable computing, is only one of many features that make the new LaserJet a standout in a crowded market. It is well-suited for use as a shared printer in a small office, thanks to two parallel ports that make it possible to hook the printer up to two PCs at a time without any sort of network or external switch. You can also get two Apple Macintoshes on the AppleTalk connector on a 5MP, the printer's PostScript-compatible version. The printer is smart enough to make one computer wait its turn until the other has finished.

Of course, what you care about most in a printer are the printouts, and the new LaserJet shines. It is a true 600 dots-per-inch printer, while lower-end machines offer 300 dpi. The difference is not all that noticeable on text but can really show on graphics, especially scanned photographs and other material where shades of grey are critical. The print quality of the 5P easily matches that of the much more expensive—and faster—LaserJet 4Ms that we use on BUSINESS WEEK's office network.

HP could have stopped there and had a hit. But the company also demonstrated a refreshing sensitivity to smart industrial design. Not everybody can keep a printer backed up to a wall to hide a hideous tangle of cables. And with so many connections available, the 5P could easily be particularly ugly. Instead, the connectors are hidden behind doors on the rear of the unit, and the cables and power cord emerge neatly from the back. The paper supply is well thought out, too. The pull-out paper tray slides out of sight under the printer, and the front folds down to form a second tray for paper or a stack of envelopes.

The new LaserJets are far from the cheapest four-page-per-minute laser printers you can find. The street prices are around $900 for the 5P and about $200 more for the Macintosh-ready 5MP. You can get a capable unit such as the new Canon LBP 430W for a bit more than half the price of the HP. But the HP is a good value, especially if you can take advantage of its versatility.

MANUAL LABOR. The only place where HP fell down on the job is in ease of setup. Getting the 5P running is by no means difficult, but trying to ferret out answers in the manual can be confusing. I needed to call technical support to find out how to properly install the necessary software on my laptop so that it could link up with the printer. HP would do well to study the "visual guide" step-by-step instructional software that Canon supplies with its new ink-jet printers for the home market.

Printers, as dramatically as computers themselves, keep offering more and more at reasonable prices. While many of the changes are incremental, the infrared link is a fundamental improvement. So far, no other printer maker has announced plans to incorporate the wireless feature into its products. But IBM and Apple Computer, as well as Hewlett-Packard, were strong supporters of the IrDA standard that makes sure laptops and printers "understand" each other. Expect the laser link to quickly become standard on printers, laptops, and handheld products such as Apple's Newton MessagePad.

BULLETIN BOARD

AUTOMATIC TELLERS

BUREAUCRACY BUSTER

If the mere mention of the Motor Vehicles Dept. or other government agencies conjure up images of long lines and surly clerks, take heart. Automated teller technology may soon simplify dealings with your government the way ATMs helped cut down bank lines. The AT&T 5665 Document Pro-

cessing Terminal incorporates a 14-in. crt display and a scanner that can process checks and other documents such as vehicle inspection certificates. The $25,000 terminal is built around a 486 processor and runs IBM's OS/2 operating system. AT&T Global Information Solutions hopes that pressures on governments to improve services while cutting costs will create a market for the devices.

OPERATING SYSTEMS

ON-SCREEN KEY CUES

Do you prefer the keyboard to a mouse in Windows, but have trouble remembering all those keystroke commands? Shortcut Guides from Shortcut Software (310 459-3871) are a handy alternative to reference cards or keyboard templates. Available for many Windows products for between $15 and $30, the guides offer pop-up windows that give on-screen listings of the keyboard equivalents for menu items and other mouse clicks.

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

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ggests that classic lines
ut of style.

of hot coffee and spilled not a drop.
I was driving a Range Rover.
The Range Rover is a monster with

proud with the introduction of what was at that time the finest 4-wheel-drive utility vehicle in the world, the Range Rover. Seventeen years later, there still is nothing finer. And, at last, Range Rover h

In my book the Range Rover still has no equal when it comes to the contradictory tasks of providing on-road motoring in comfort and style and the off-road ability of a mountain goat when the urge or conditions beckon.

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We traveled in a comfort, style, and confidence only the Range Rover provides.

No other SUV has the Rover's unique combination of style, performance, and quality

DESCRIPTIONS OF THE ROVER'S EXTERIOR INCLUDED "the class classic," "distinctive, impressive and handsome," "angular but stylish," and "boxy but elegant." One tester wrote "N

The unanimous verdict: If man were only allowed to own one car, and if that one car were meant to be the perfect all-rounder—spacious, comfortable, powerful, capable of going on where the roads end—then the choice would quickly narrow down to one vehicle: the Range Rover.

"In short, the Range Rover is still the best in the world at what it does."

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The Ra
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he Range Rover Classic. We had some help with the name.

For a quarter of a century, Range Rovers have survived the most brutal erritory in the automotive world.

The editorial page.

Therefore, the County Classic needs ittle introduction.

Suffice it to say that its 14-gauge teel chassis, pillowing electronic air uspension, permanent four-wheel lrive, and tireless 3.9-liter V8 engine nake this Range Rover ideal for driving over endless rock beds, through arctic blizzards, and back to the executive parking space.

Its dual airbags, all-terrain ABS, and electronic traction control help make its armchair seating all the more relaxing.

And at around $45,000,* it may well be the only affordable work of art ever exhibited at the Louvre.

So why not call 1-800-FINE 4WD for the Land Rover dealer nearest you?

The County Classic is, after all, the most refined and elegant version of the original Range Rover.

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LAND ROVER **RANGE ROVER**

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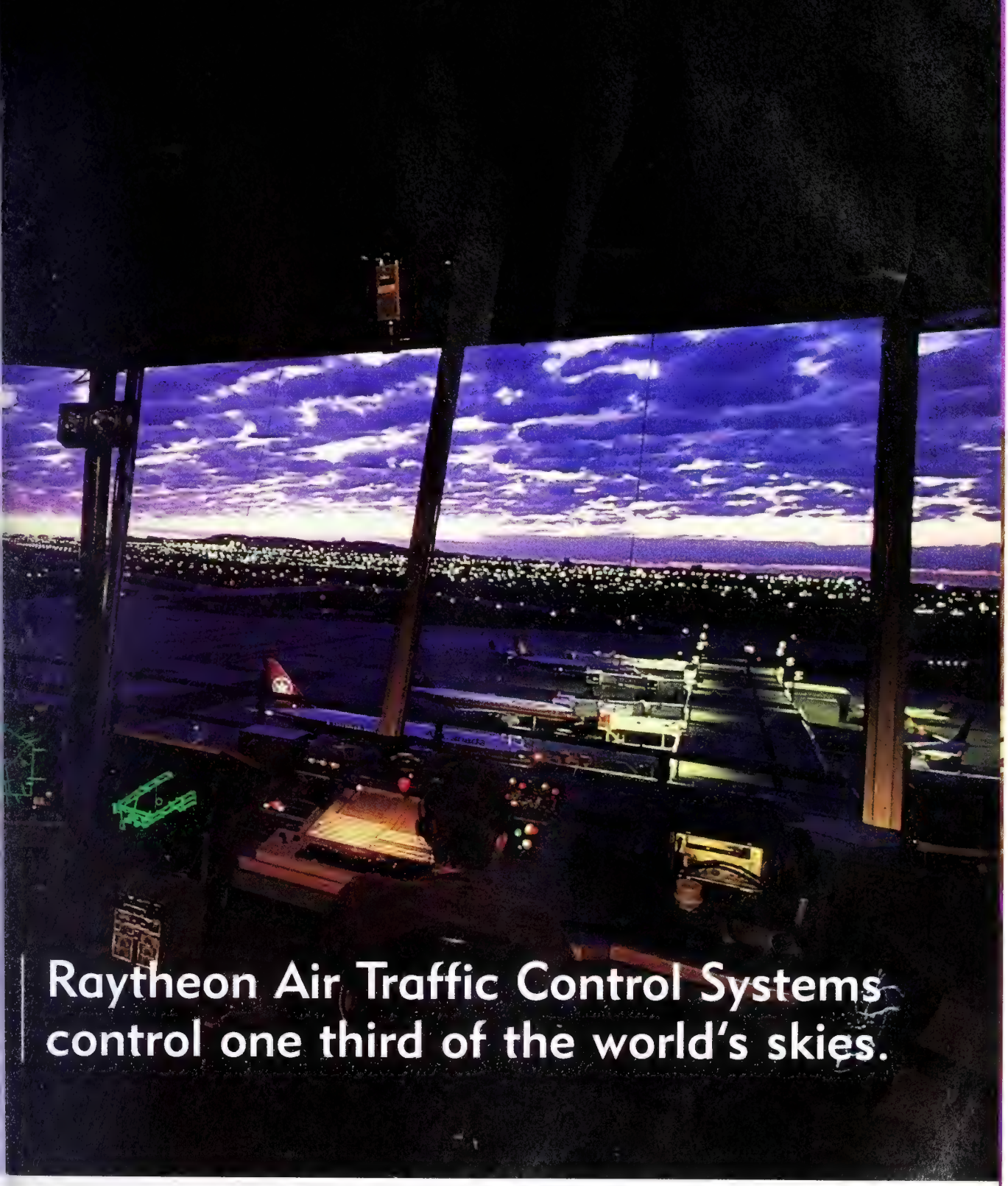

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EXPECT GREAT THINGS

BY RUDI DORNBUSCH

NO WAY TO RESCUE THE GREENBACK —AND NO NEED TO

RELAX: Just as the dollar fell for sound reasons, so will it revive. Drastic fixes, such as returning to the gold standard, are simply folly

Rudi Dornbusch is professor of economics at Massachusetts Institute of Technology

The dollar has reached all-time lows against the Japanese yen and the German mark. But don't worry: Reports of the greenback's demise have been vastly exaggerated. There is nothing that can be done—or needs to be done.

Despite large swings, the dollar has been declining against the yen and the mark for more than 25 years. Japan and Germany have performed better than the U. S. on productivity and inflation during that time, and they have taken a more conservative fiscal stance: Hence the steady appreciation of their currencies against the buck. Added to this have been the growing indebtedness of the U. S. and the rising net-creditor status of Japan and Germany.

This is not the first time the dollar has seemed to slip into a bottomless hole. Of course, the dollar won't plunge an extra 20% or 30%, as though it were the lira or the peso. The extent of the dollar's decline so far, however, is not surprising.

ASPIRIN POWER. Why is a falling dollar no big deal? The dollar has not really dropped so far—in trade-weighted terms, the depreciation has been barely 3.5% since December, 1994—and there have been large offsets to the weakness against the yen and mark. The Canadian and Mexican currencies have both depreciated against the dollar. The trade effects are muted on Germany because most of its trade is with Europe or in competition with Japan in developing markets. And as for Japan, the yen's appreciation has kept a rival producer at bay. The upshot is that not much has happened—for growth or inflation—and certainly not enough to divert interest-rate policy from its primary responsibility, which is price stability with steady growth.

Whenever key currencies move sharply, hard-money gurus demand a return to the gold standard, and more moderate reformers call for a "new Bretton Woods." We don't need gold, thank you. The past decade bears witness that central banks around the world are taking inflation seriously. In the U. S. particularly, fighting inflation before it strikes—like taking an aspirin before you get a headache—does wonders for monetary-policy performance. Likewise, a new Bretton Woods agreement—on fixed rates and common monetary policy—just isn't an option, even if it were a good idea. Since the Europeans can't keep their currencies fixed, there's no reason to think a North Atlantic fix is workabl

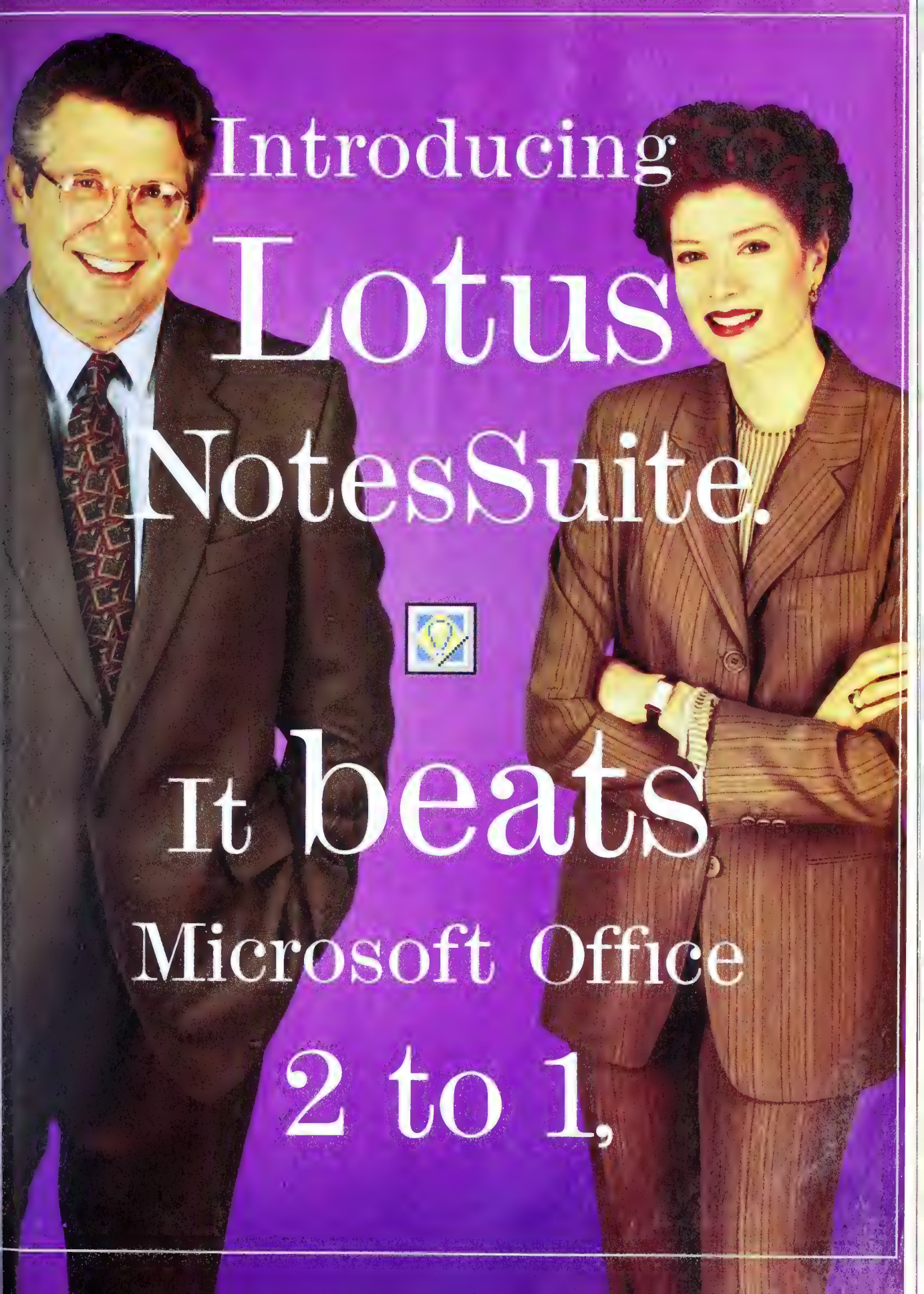
A more moderate option for stabilizing cu rencies is coordinated intervention: Get in the currency market with strength and i flict deep wounds on speculators by throwin billions at them. The notion of a new coord nated-intervention agreement, like the 198 Plaza and Louvre accords, is just a pip dream. Unless central banks enlist interes rate policy to support their interventio drawing lines in the sand won't work.

True, there is evidence that interventio alone may have at least short-lived effect particularly if it hits an uncertain market la in the afternoon with all central banks stan ing firm when exchange rates have gone wil But none of these conditions are met toda More likely, we will see Brussels eager get its hands once again on European mon tary issues, now that its initiative on a co mon currency is on the rocks. No surprise seizes on the dollar: To a man with a hamme everything looks like a nail.

Is all this too complacent? Won't U. S. inf tion rise? Won't Japan and Germany collap under the weight of appreciation? Won't ce tral banks dump the trillions of dollar-denom inated assets they have traditionally hel Germany can cope well, but the same is n true of Japan, where such concerns are am ly justified. Its anemic economy stumbles fro one recession to another, with reprieves on from projects such as public works followin an earthquake.

BIG BUBA? Japan's strong yen may be drive by its trade surpluses, but that is hardly cure, since the weakening of the econon reduces the level of imports even faster th the loss of competitiveness raises them. Jap needs a cut in interest rates—down to zero to cope with pervasive bankruptcy and sla Fed Chairman Alan Greenspan's drivi short-term rates down to 3% cured the U. economy. Japan's dead-in-the-water econon with falling prices needs some of the sa medicine.

Don't worry about the dollar losing its st us. That alarm rings every time the curren slides. Soon, the dollar will take an uptu and people will be happy they did not jum ship. Over time, the greenback has had riv as a reserve currency, but we are nowhe near a time when the world wants to entru all its assets to Japan's Finance Ministry even to the Bundesbank.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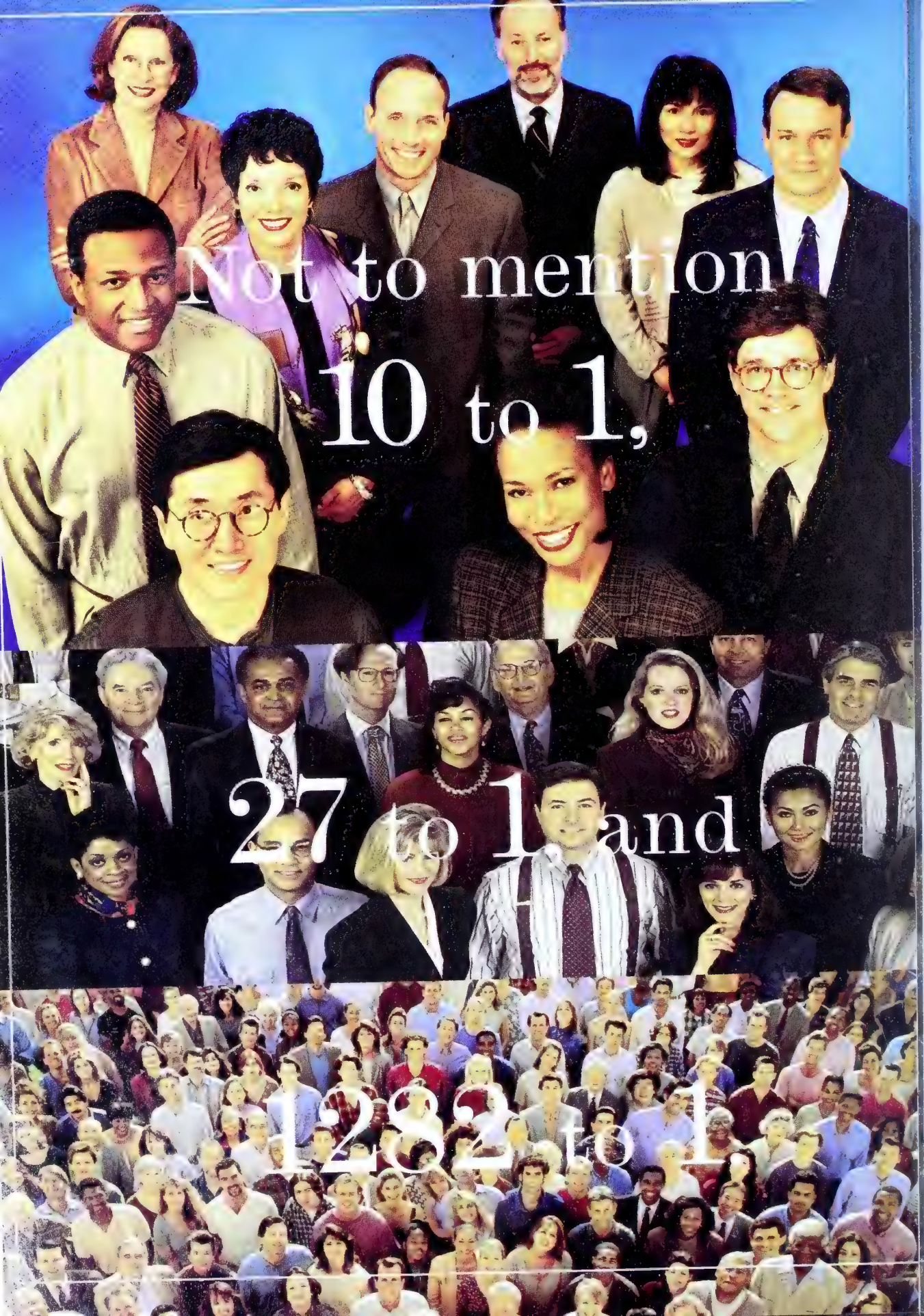
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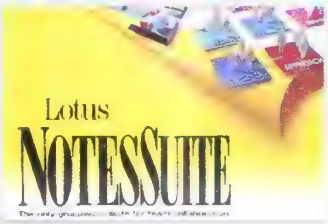

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BY GENE KORETZ

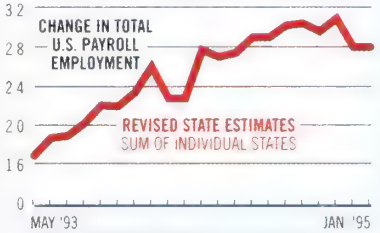
LAST YEAR'S NICE JOB SURPRISE

New U.S. data show a bigger gain

A coming benchmark revision of nationwide job growth in 1994 should show greater overall gains, but some deceleration late in the year. That's the message economist Mark M. Zandi of Regional Financial Associates draws from recent Labor Dept. revisions of state employment data (chart).

Each year, as the government issues monthly estimates for national payroll employment, every state comes up with estimates for its own bailiwick. Although these estimates are based on similar data, states use different techniques to correct for jobs created by new businesses that payroll surveys may miss.

FASTER JOB GROWTH IN 1994, BUT A SLOWING AT YEAREND



▲ PERCENT INCREASE FROM YEAR-EARLIER LEVEL

DATA: BUREAU OF LABOR STATISTICS, REGIONAL FINANCIAL ASSOCIATES

The upshot is that the sum of the states' tally often diverges significantly from the more publicized national number. It is only after both are revised—based on more complete payroll data—that the two measures are brought more closely into line.

That is now taking place. The sum of the states' numbers, which came to 114.3 million jobs in December, has been revised up to 115.6 million. And that, says Zandi, suggests that the yearend national total of 115.1 million will be raised by some 600,000 when the national benchmark revision is released in June—pushing up average job growth for 1994 to 2.8% from 2.6%.

The state revisions show only Hawaii suffering a job decline on an average basis in 1994. The Rocky Mountain states posted the fastest growth, while the most sluggish were New York, Connecticut, California, Rhode Island, Pennsylvania, and New Jersey.

The new data also suggest that job growth began slowing late last year—a view supported by the upward trend of weekly unemployment-insurance claims since December, and the recent decline in the Conference Board's help-wanted-advertising index.

FARM WOES PLAGUE CHINA

Food shortages threaten inflation

Some 25 years ago, China's pathbreaking agricultural reforms produced a 30% increase in grain output in just half a decade. But recently, a drastic runup in food prices exacerbated by natural disasters has exposed festering problems in the nation's agricultural sector.

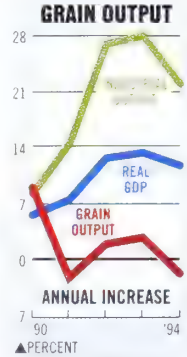
Since 1990, annual growth rates of industrial output, gross domestic product, and population have averaged 22.8%, 11.4%, and 1.16%, respectively. Grain output, however, has edged up an average of only 0.1%.

According to economist Guocang Huan of J. P. Morgan & Co., several factors are behind this dismal performance. Government investment in agriculture, mainly in infrastructure, has fallen sharply, from over 13% of total fixed investment in 1978 to 1.8% last year. Use of agricultural technology is lagging, and farmers have been squeezed by high input inflation (particularly for capital goods), rising taxes and consumer prices, and limits on grain prices.

Meanwhile, cultivated land has fallen by about 2.7% since 1985, in the wake of rapid urbanization, real estate development, deteriorating infrastructure, and natural disasters. And millions of farm workers are seeking better jobs in rural industries and coastal industrial areas.

Last year, China shifted from being a net grain exporter to being a net grain importer. It now plans to step up agricultural investment, limit local taxes on farmers, and cap prices on farm machinery. But unless it develops a comprehensive long-term strategy to boost grain output and farm productivity, warns Huan, its economic future may be threatened by chronic food shortages and high inflation.

CHINA'S LAGGING GRAIN OUTPUT



▲PERCENT

DATA J P MORGAN & CO

THIS EXPANSION MAY HAVE LEGS

An omen of cyclical longevity

Some years ago, economist Philip Cagan of Columbia University discovered an interesting correlation between interest-rate movements and the durability of cyclical expansions. Specifically, the longer the rates continued to decline after a recovery started, the longer the expansion tended to last.

In updating this analysis, Columbia's Center for International Business Cycle Research has found that the best correlation is provided by the commercial bank prime rate. Since the prime didn't touch bottom in the current recovery until February, 1994—35 months after the recession ended—this suggests that the expansion should last through 1996, if the historical relationship holds.

MORE WOMEN ON THE DOLE?

Not in the '80s, says a recent study

The popular view is that welfare dependence among American women rose in the 1980s. But a new study by economists Peter Gottschalk of Boston College and Robert Moffitt of Brown University finds no increase in dependency at all.

The researchers compared the histories of representative samples of U.S. women, age 15 to 44, at the start of two periods, 1974-'80 and 1981-'87. In each seven-year period, they calculated both the total time spent on welfare and the share of income derived from welfare by the entire group. They found no significant difference in the two groups' time spent on welfare, while welfare payments as a share of income actually dropped, from 2.7% in the 1970s to 2.5% in the 1980s. They also found no increase in the average length of individual spells of welfare dependency.

To be sure, the researchers did find a rise in welfare dependency among younger women aged 15 to 24, a trend they attributed to a tendency in this group to go on welfare at an earlier age in the 1980s. But this was offset by shifts in dependence among older women. Contrary to popular perceptions, conclude Gottschalk and Moffitt, "overall welfare dependency among women does not appear to have increased in the 1980s."

/ JAMES C. COOPER & KATHLEEN MADIGAN

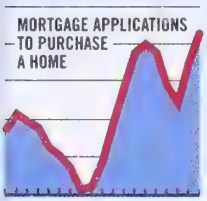
HE FED'S SQUEEZE PLAY S CRIMPING HOUSING

U.S. ECONOMY

When is a house not a home? When economists start look- g at it. Then it becomes a source of jobs for carpen- rs and masons, a reason consumers buy furniture d appliances, and a generator of utility and mainte- nce bills. Add it all up, and some 15% of all econom- activity revolves around the housing sector.

Housing is also something more. It's always the first sector to bend to the will of the Federal Reserve. When interest rates were low in 1993 and early 1994, residential construction alone contributed 10.5% of the increase in real gross domestic product, not to mention all the secondary impacts. Since the first quarter of 1994 when the Fed started lift rates, homebuilding has flattened out, contribut- g nothing.

BUYERS RUSH TO CATCH LOWER RATES



DATA MORTGAGE BANKERS ASSN

This year, housing's performance will help determine w successful the Fed will be in bringing the economy for a soft landing. That's because the latest news on rable goods shows that capital spending is still flying gh. And the evidence remains mixed on whether the ent consumer slowdown is temporary or lasting.

BE SURE, housing is feeling a tug from the Fed's ven rate hikes in the past 14 months. Sales of new gle-family homes held up surprisingly well last year, t they tumbled 14% in February to an annual rate of 1,000. Sales are now 20% below a year ago.

Home buying fell in all regions, and sales in the West mmeted 28.5%, partly reflecting California's heavy ns and flooding. The February drop left builders h a 7.7 months' supply of unsold homes, the most ce the tail end of the last recession four years ago.

Existing home sales are also taking a big hit. Resales pped 5% in February, to an annual rate of 3.43 mil- n, the lowest pace in 2½ years. The decline is evident oss all regions, but again the West has fallen the st, with sales down 18.9% from a year ago.

That's not to say that housing is falling out of bed. nically, the recent bond-market rally, which has hed down long-term interest rates in response to ns of an economic slowdown, is actually helping to p up home buying (chart).

Mortgage applications to buy a home have surged 3% from mid-January to mid-March. That's right at the time when rates on a fixed, 30-year mortgage were slipping below 9% for the first time in nearly 4 months. The lending rise suggests that sales for both new and existing homes probably will stage a rebound in one or two of the spring months.

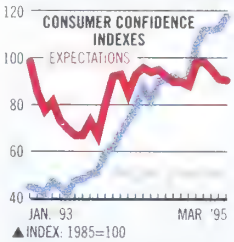
But any rebound may be short-lived, since interest rates can carry home buying only so far. The other key factor is income—and the Fed is looking to hold down job and income growth to keep inflation modest. If the Fed is successful, the trend in housing will remain lackluster over the course of 1995.

Already, builders are tabling new projects—not surprising given the heavy inventory of unsold homes. The Commerce Dept. revised its data on building permits to show a 1.2% drop in February, instead of a 0.6% fall. And the F. W. Dodge Div. of McGraw-Hill Inc. reports that the value of new residential building contracts fell 2% in February. Total contracts rose 5%, boosted by business construction and public works.

THE LATEST JUMP in consumer optimism, though, adds to the debate over whether or not the Fed is achieving its slowdown goal. One hour after Fed officials sat down to their Mar. 28 policy meeting, at which they agreed to leave rates alone for now, the Conference Board reported that its index of consumer confidence rose to 101 in March, from 99.4 in February. The high level is consistent with a "reasonably strong" economy, says the Board.

However, consumers' view of the economy is diverging by a widening margin when it comes to assessing the present vs. the future (chart). The Conference Board said the current-conditions component of the confidence index climbed to 117.1 from 112.2 in February, while expectations about the future slipped for the second consecutive month, falling to 90.2 from 90.8.

HOUSEHOLDS: UPBEAT ABOUT THE PRESENT



DATA CONFERENCE BOARD

Buying plans rose in March, after sliding in February. Plans may have picked up because hiring remains healthy. The Board said that 23% of consumers think jobs are "plentiful." That's up from recent months.

Moreover, the eventual receipt of delayed tax refunds could provide some consumers with the cash to keep on spending. The Internal Revenue Service is trying to detect fraudulent tax returns by matching up

ERIC HOFFMAN/BW

Social Security numbers. So, through Mar. 10, the processing of 4.6 million tax returns had been delayed, and refunds were running about $5.9 billion—or 20%—below last year's pace.

THE IRS has already begun to mail out refunds to those who filed in January. And if those consumers spend the bulk of their refunds quickly, the April and May retail sales data could show a big pop.

Or maybe not. High-income taxpayers will be writing out a bigger check to Uncle Sam. Because 641,000 of the wealthiest taxpayers chose to divide the 1993 tax hike into three installments, they will be paying an extra $4.2 billion in taxes by Apr. 17. That will decrease disposable income.

Some signs still suggest a downshift in consumer spending. In addition to growing pessimism about the future, jobless claims are rising, and higher payments for adjustable-rate mortgages are taking a bigger chunk out of budgets. These yellow lights are probably why the Fed chose a wait-and-see approach.

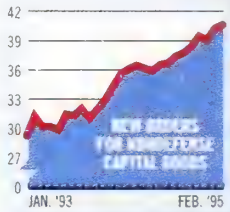
If spending does resurge, the central bank will likely move again at its May 23 meeting. Although the Mar. 27 resignation of Governor John P. LaWare removes a recent inflation hawk from the policy committee, the Fed probably will not sit still if recent slowdown signs prove to be only temporary.

But while consumers are flashing mixed signals about their future spending, another key sector of domest demand, business investment, shows few signs of slov ing. New orders for durable goods fell 0.8% in Febr ary, but after three strong increases.

New orders for nondefense capital goods remained a high level (chart). They edged up 0.1% in Februar after surging 10.9% in January. Industrial machine has been particularly strong in early 1995, advancir 9.4% in January and 1.5% in February.

Shipments of capital goods also have been robust, indicating that business investment was a solid contributor to first-quarter GDP growth. Although some equipment is being exported, the gain shows that companies are spending big on productivity-enhancing machinery, especially computers.

CAPITAL SPENDING REMAINS HEALTHY



▲BILLIONS OF DOLLARS, THREE MONTH MOVING AVERAGE

DATA: COMMERCE DEPT., BUSINESS WEEK

The Fed is unlikely to clamp down on signs of strong business spending because such outlays cut labor cost ultimately easing price pressures. But consumers a likely to feel a bigger squeeze from tighter moneta policy. And since a home is the biggest purchase family makes, the housing sector and all of the relat spending may have to suffer even more before t Fed is ready to stop tightening.

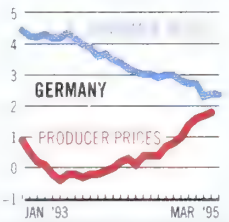
GERMANY

THE BUNDESBANK'S BALANCING ACT

The Bundesbank should feel pleased. The central bank has fostered a sound economic recovery and lowered inflation while reining in money growth and keeping the mark rock-solid. Now comes the tricky part: holding it all together.

After keeping a steady hand on policy since July, the Buba is now caught between a surging mark and a decaying inflation outlook. Recent wage settlements, which are raising inflation fears because they will double wage growth to 4%, argue for higher rates. But exporters and politicians are clamoring for an interest rate cut, worried that the mighty mark will thwart the export-led recovery.

INFLATION IS TAME, BUT PRESSURE IS RISING



▲PERCENT CHANGE FROM A YEAR AGO

DATA: DRI/McGRAW-HILL, BUSINESS WEEK

Despite hints of a rate cut by Bundesbank President Hans Tietmeyer—who likely meant to jawbone the mark lower—the next rate move looks to be up. The mark's muscle will hamper growth, but it's not yet a threat to the recovery. Any export slowdown will come gradually, given strong demand in Europe and eastern Germany, especially for capital goods. Firmer domestic demand will take up some slack, as business investment and consumer spending make a bigger contribution. The economy grew 2.4% in 1994, finishing with a surge in demand, and analysts expect about 3% this year.

While the higher mark may temporarily lower the cost of imported materials, the more-than-offsetting inflationary jolt from faster wage growth will last. Wage gains and a productivity slowdown from '94's record pace will lift unit labor costs. Also, fiscal policy will turn stimulative in '96. February producer price infla tion, although tame at 1.8%, hit a three-year high. March consumer inflation, at 2.4%, remains above the bank's 2% target.

The Bundesbank would ease policy only in a full-blown currency crisis, such as a plunge in the French franc if Prime Minister Edouard Balladur loses the May presidential election. But given the strong mark, plus below-target growth in the key M3 money supply, the Buba can at least delay what appears to be an inevita ble tightening.

WHEN YOU'RE LOOKING FOR GROWTH, THINK LONG TERM.

Kids have a way of growing up so suddenly. You get out the measuring stick and you realize they've sprouted several inches right under your nose.

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THE REPUBLICANS

A GRAND OLD BRAWL

Front-runner Dole acts like he has the nomination sewed up. He doesn't

Saturday, Mar. 25, found Senate Majority Leader Bob Dole doing what comes naturally: talking politics to a group of friendly executives. Dole dropped by an American Textile Manufacturers Institute meeting in Palm Beach, vowing to give the nation the steadfast leadership he feels it lacks under Bill Clinton. "There's one more call to service for my generation," Dole said gravely, "one more mission."

The crowd loved it. "He looks like a President, he acts like a President—and he's going to be a President," gushed Senator Lauch Faircloth (R-N.C.), who introduced the Kansan. Dole paused only briefly to bask in the acclaim. Then, a car whisked him off for a weekend of R&R at his nearby condo.

Perhaps Dole would have been better advised to chuck his cabana outfit and book a flight to New Hampshire. Because while he savors the leisurely life of the front-runner, rivals for the '96 Republican nomination are planting dynamite under his chaise lounge. Dole, who is set to enter the race on Apr. 10, leads the GOP field. But he is coming under increasing pressure from the GOP's left and right flanks—pressure that could yet trigger a free-for-all that might deprive Republicans of the only candidate they have who bests President Clinton in the polls. Dole led Clinton, 52% to 44%, in a recent *Los Angeles Times* matchup.

The fiercest challenge comes from the right, where Texas Senator Phil Gramm is hustling hard. Take Florida. While Dole coasted, Gramm blitzed the state. Over two days, he stopped in Miami, Orlando, Tampa, and Naples before flying to San Diego to give a rousing Sunday speech to the archconservative California Republican Assembly.

To complicate matters, Dole now faces heavyweight competition from the moderate side of the party. During Dole's Florida sojourn, California Governor Pete Wilson kicked off an East Coast tour that included New Hampshire. Wilson is itching to join the race, casting himself as a pol who reinvented government while Dole and Gramm were jawing about it in Congress.

EARLIER PRIMARIES. Theoretically, there is no problem with Republicans having three top-ranked contenders. (Also in the wings: former Tennessee Governor Lamar Alexander, Senators Richard G. Lugar of Indiana and Arlen Specter of Pennsylvania, and TV pundit Patrick J. Buchanan.) But the squeeze on Dole is a challenge to GOP power brokers' hopes that the contest could be settled quickly and bloodlessly. To promote that end, the party front-loaded its nominating process, moving up such key primaries as New York (Mar. 7) and California (Mar. 26). The result: In a six-week span, 70% of all delegates will be awarded.

At first glance, Dole seems ideally suited for the standard-bearer's role. The Majority Leader's job gives him massive exposure. And though he is a pragmatist, he has made his peace with right-wingers by backing a capital-gains tax cut and hardening his stance on gun control and set-aside programs (table).

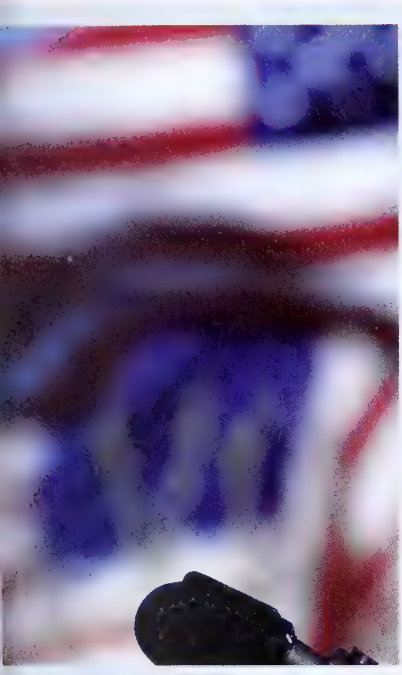
Dole has jumped on the downsizing-government bandwagon, calling for the elimination of four Cabinet departments. And though he considers the House GOP Contract With America gimmicky, he has struggled to push its provisions in the more moderate Senate. There, he has stumbled. He was unable to pass the House-approved balanced budget amendment and lacks the votes to en term limits or a big tax cut. "If D can't deliver, it will come back to ha him," says Rice University political entist Earl Black.

THE BIG THREE: WHERE THEY STAND ON THE ISSUES

ELECTION '96

Dole still is struggling to shape i message. His speeches, rambling pae to "leadership," lack a clear ratio for his candidacy. But that may not m ter if his political strategy works. It pends on victories in Iowa (Feb. 1 and New Hampshire (Feb. 20), follo by quick wins in New York, South C olina, and Ohio, where he has snag key endorsements. "Voters need a son to dump Dole as the front-runn says William B. Lacy, Dole's dep campaign chairman. "If he's positio as a moderate conservative, they w find it."

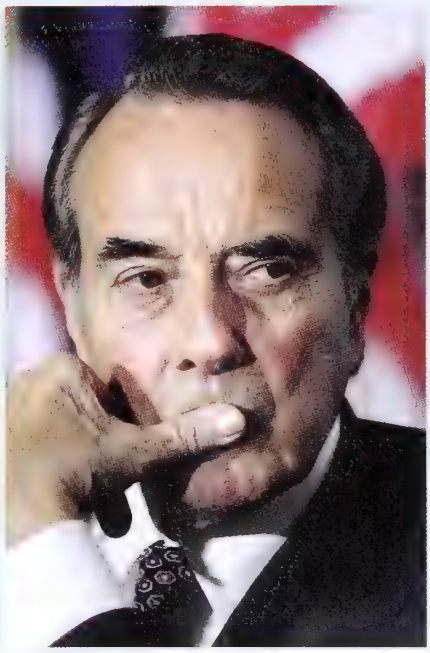
Gramm, conversely, is going a hard-liners by styling himself as Ro



PHIL GRAMM

NOMIC POLICY Asserts he lash domestic programs. Still, he n fought for Texas pork, such as ercollider. Backs Contract With tax cuts, but says tax breaks be paid for. One source of sav- orporate welfare" subsidies.

IAL POLICY Strong foe of abor- t doesn't think Congress should ortions illegal. Backed California's cut off aid to illegal immigrants, 't support national sanctions. Prom- order to overturn federal affirmative- ules. Opposes all gun control.



BOB DOLE

▶ **ECONOMIC POLICY** A lifelong pragmatist, Dole often has backed budget deals that raise taxes. Favors cuts to capital-gains and middle-class taxes. Failed to muster Senate vote for balanced-budget amendment.

▶ **SOCIAL POLICY** Opposes abortion, though anti-abortion movement doubts his commitment. Led drive to revamp 1994 crime bill by stripping out social spending and toughening penalties. Supports affirmative action, but has agreed to "review" preferential hiring policies.

PETE WILSON

▶ **ECONOMIC POLICY** Has pushed for deep spending cuts—accompanied by tax hikes. His 1991 $7.5 billion tax increase still infuriates right-wingers. He has tried to mollify critics by championing a 15% state tax cut.

▶ **SOCIAL POLICY** Pro-choice, has backed gay-rights measures and some forms of gun control. As governor, led drives for tough mandatory-sentencing laws, welfare cutbacks, and deep slices in education. Backed Proposition 187.

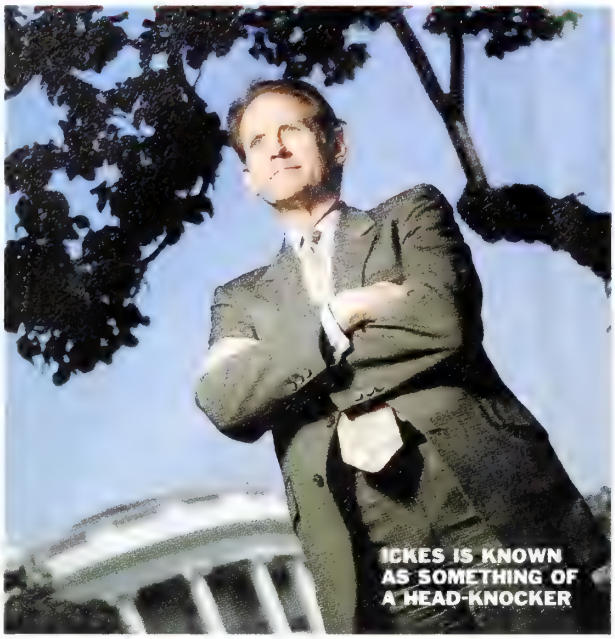
agan's heir. No matter how far Dole fts to the right, Gramm is one hop ead: He wants to freeze discretion- spending, chop "corporate welfare," d ban affirmative action. He is set to mmer Dole and Wilson for past tax es, and his hard-edged themes reso- e with conservative activists, gun ners, and the Christian Right. amm's first hope for a breakthrough New Hampshire. But his core support in the Mar. 12 Super Tuesday round Southern primaries.

RADDLE CANDIDATE. Wilson's task is kier. Relying on such longtime bene- tors as California developer Donald Bren and Chevron Corp. CEO Ken- h T. Derr, he aims to raise $18 mil- for a '96 run. But Wilson's daw- g led some backers to sign up with er candidates. Among them: Bay a business exec Sam Bamieh, who's raising money for Alexander. "I pleaded with [Wilson] not to run," Bamieh says. "He'll embarrass himself." Cash aside, Wilson needs to quickly build an infrastructure in states where he has spotted opponents a year's lead time. GOP pros say his past reliance on massive media campaigns won't be much help in Iowa and New Hampshire, where grassroots organizing is key.

Still, Wilson squeezes Dole by appealing to his centrist constituency. As an abortion-rights champion, he hopes to mobilize suburban, pro-choice voters. At the same time, he appeals to hard-liners with tough positions on crime, immigration, and racial quotas. This left-right fusion may not play well in New Hampshire, though, so Wilson will have to break through in Massachusetts or a moderate Midwestern state if he is to be viable by the time the California primary rolls around. "Wilson is the Straddle Candidate," says John Petrocik, a political scientist at the University of California at Los Angeles. "At heart, he's a moderate, [but] he can talk about the same social policies that Buchanan talks about and not seem polarizing."

With the stakes rising, it won't be long before Dole, Gramm, and Wilson start duking it out. The most likely to begin the brawl: the pugnacious Gramm. He "may try to make the contest into an ideological war because he's telling conservatives he's the real McCoy," says GOP pollster Fred Steeper. If that happens, all bets on a safe and sane Republican primary season are off. And Bob Dole's stately procession to the nomination could turn rocky indeed.

By Lee Walczak in Washington, with Richard S. Dunham in Palm Beach and Eric Schine in San Diego



ICKES IS KNOWN AS SOMETHING OF A HEAD-KNOCKER

A LONG ROAD BACK

- **SOLIDIFY DEMOCRATIC BASE** around such issues as striker replacement, breast-cancer research, nutrition programs, and family leave.
- **BUILD BRIDGES** to moderates by promoting job training, college-tuition tax breaks, and education.
- **BOOST CLINTON'S IMAGE** by describing policies as people-friendly while tarring Republican policies as extreme and heartless.
- **TARGET KEY STATES** for White House benefits. California will get lots of aid, and long shots like Georgia will get early attention.
- **FORESTALL A PRIMARY CHALLENGE** with early fund-raising and organizing presence in New Hampshire and Iowa.

POLITICAL STRATEGIES

HAROLD ICKES IS TOUGH. TOUGH ENOUGH TO REELECT BILL?

Clinton's top political aide has to reverse a string of failures

It was the fall of 1994, and President Clinton's health-care reform plan was on life support. White House Deputy Chief of Staff Harold M. Ickes hated the TV ads produced by media consultant Mandy Grunwald. He made that painfully clear during an expletive-laced rant at an aide to First Lady Hillary Rodham Clinton. "He popped his cork," shrugs a colleague. "But that's Harold."

ELECTION '96

Mr. Personality, he's not. Nor is his track record all that great. Since joining the White House in January, 1994, Ickes has fumbled the three major tasks he has been assigned. He couldn't control damage from the Whitewater probe. He failed to win passage of health reform. And he oversaw the President's disastrous midterm election strategy.

"HARDHEADED." Ickes acknowledges the failures. "Three strikes and you're out?" he chuckles in an interview in his White House office. Not exactly. Rather, Ickes has drawn his toughest assignment from the President yet: getting the boss re-elected. Why Ickes? Colleagues say the blunt, no-nonsense adviser offsets Clinton's lack of focus and follow-through and is a master at building political coalitions. Says Democratic consultant Robert Shrum: "He's a very effective operative, and he will plan a practical, hardheaded, and systematic campaign."

The White House doesn't hold Ickes, 55, personally responsible for his performance to date. Insiders say he signed on too late to contain Whitewater or save a flawed health plan, and that the midterm bloodbath was too big to lay at one person's feet. They point to his savvy in running Clinton's 1992 New York primary campaign and the party convention. Most important, he's one of the few aides that both Clintons trust totally. "They see him as the ultimate loyalist," says one adviser.

But loyalty will get Ickes only so far. His organizational talents will guarantee a good nuts-and-bolts campaign, but Ickes hasn't helped Clinton find a message that resonates with voters. While a Mar. 16-19 *Washington Post*-ABC News poll indicates that the President has made progress in portraying himself as an ally of the middle class, that hasn't broadened his base much beyond the 43% who voted for him in 1992.

How to make up the ground? The lesson from the midterm rout, Ickes says, was that th GOP developed clear message what it stood for smaller gover ment—and repeate it relentlessly. No Clinton hopes counter the GOP wi his own mantr "One of the ma points will be, h the President sta ed to move the cou try in the right d rection?" Ickes sa

One of Ickes' ma tasks is to head o a primary challeng His first step: bu up a campaign w chest. While t campaign committ won't be set up f several weeks, Ickes has helped sele its only officer, finance director Terere R. McAuliffe, who vows to raise $5 million this year.

Ickes also hopes to rehabilitate te debt-ridden Democratic National Committee. In December, he persuaded Clinton to appoint Senator Christopher Dodd of Connecticut and South Carolin committeeman Donald L. Fowler as DN co-chairs—a decision that drew cri cism within the party. Next, he's helpi the DNC match the Republican Part's grassroots operation and communi tions capabilities.

LIBERAL BENT. Ickes seeks to rebui the party by reaching out to groups organized labor, women, and min ities—that feel abandoned by Clinto shifts to the right. His experience a labor lawyer with close ties to ci rights leader Jesse Jackson, not to m tion his liberal leanings, will help. lobbied Clinton to sign an order b ring federal contractors from hiring p placements for strikers, arguing tha would appeal to angry blue-collar wo ers. He also has asked Cabinet memb to assemble a list of pro-women p grams for Clinton to tout.

Such directives likely will fuel cr cism from centrist Democrats that Ic will only reinforce Clinton's liberal stincts—at a time the President ne to be aggressively courting the cen Indeed, mobilizing liberals while rea ing out to moderates will be Ick toughest—some say impossible—ch lenge. He thinks he can pull it off. I one more strike, and this ball ga probably is over.

By Susan B. Garland in Washingt

COMMENTARY

By Howard Gleckman

WELFARE CUTS: NOW, IT'S CORPORATE AMERICA'S TURN

First, kids in the school lunch program took a hit. Then, welfare moms. Now, CEOs who have been demanding that Congress slash government spending may fall victim to their own rhetoric. Democrats and Republicans alike are about to take aim at some of the tens of billions of dollars in aid business receives each year in tax breaks and direct subsidies. And as tough as that may be on many companies, it's about time.

The White House got into the act on Mar. 28, when it proposed eliminating some Small Business Administration subsidies. And with many polls registering public opposition to Republican attacks on programs for the poor and middle class, the GOP-dominated Congress soon will follow. In early April, the House plans to take up a bill both to cut taxes by $189 billion and to pay for the reductions by capping a large chunk of future outlays. As part of that effort, Budget Committee Chairman John R. Kasich (R-Ohio) has recommended trimming nearly $10 billion in "corporate welfare"—including spending on the Export Administration, the Travel & Tourism Administration, and energy research.

ATTITUDE ADJUSTMENT. In the Senate, Finance Committee Chairman Bob Packwood (R-Ore.) predicts his panel may slash business tax breaks to reduce the deficit or pay for other tax cuts. His comments signal a major departure from the Republicans' promise to oppose such "loophole closers." Moreover, Senate resistance is building to the House's business tax cuts.

Like it or not, GOP lawmakers just about have to clip corporate goodies if they're serious about balancing the budget. Without such cuts, Republicans will have the worst of all worlds: They'll fail to control spending, and then they'll have to explain to voters why they targeted poor children but not wealthy corporations. "It does present a public-relations problem," says Stephen Moore, director of fiscal policy studies at the libertarian Cato Institute.

But cutting corporate benefits will have more than symbolic value. Cato figures that the federal government will spend $86 billion this year on programs ranging from promoting exports for Boeing Co. to providing inexpensive grazing land for cattle ranchers. Such government interference distorts markets and promotes established businesses over more creative startups with fewer political connections. Argues Labor Secretary Robert B. Reich: "There is an efficiency loss from promoting one company or industry at the expense of another." Plus, Cypress Semiconductor Corp. CEO T. J. Rogers says: "You do nothing but hurt the economy by propping up ailing companies."

P.R. PROBLEM If Congress spares business but trims school lunch subsidies, how will voters react?

ON THE BLOCK. The biggest budget savings still must come from entitlements such as Social Security, Medicare, and Medicaid. But the rest of the budget—so-called discretionary programs such as foreign aid, environmental protection, housing, export promotion, and the like—already is on the block. After protecting the Pentagon, the House GOP hopes to spend just $252 billion for all other discretionary programs in 2000, nearly 10% less than this year. That makes corporate subsidies a huge target.

The attack on business bennies is gaining support among thinkers across the political spectrum. Cato has a hit list. So does the moderate Democratic Progressive Policy Institute, which wants to cut $231 billion over five years in both direct spending and tax subsidies. And the conservative National Taxpayers Union has joined forces with the environmental group Friends of the Earth to recommend cutting $33 billion in special benefits for miners, ranchers, and utilities. "A subsidy is a subsidy is a subsidy," says lobbyist Jill Lancelot of the NTU, which supports deep cuts in both taxes and spending.

Business lobbyists, predictably, are gearing up to fight back. Says Packwood: "The problem is every group is convinced that they are not the problem." But in a climate of deep spending cuts, it's only fair that business—no less than welfare moms—be weaned off of subsidies. Besides, opening the market to greater competition rarely is a bad idea.

Gleckman follows the budget battles in Washington.

LOBBYISTS

THE GOP NEVER MET AN INSURER IT DIDN'T LIKE

The industry is having things its own way in the new Congress

When Democrats controlled both ends of Pennsylvania Avenue, the insurance industry was continually cast as a villain that needed to be reined in. The barons of Capitol Hill threatened to repeal its antitrust exemption and scrutinize its finances. Even worse, the Clinton Administration made insurance companies the heavies in its push for health-care reform.

That all changed when the Republicans seized control. The election tidal wave swept away much of the power of such key Democratic foes as former House Judiciary Committee Chairman Jack Brooks of Texas. Now, the insurance industry may be the biggest beneficiary of the GOP's new, business-friendly policies (table).

WISH LIST. For starters, insurers stand to gain from several planks in the House GOP's Contract With America. Tort reform could reduce their exposure to big jury awards, while a cut in corporate capital-gains taxes would produce a windfall for their massive investment portfolios. Plus, a House GOP tax bill will make it easier for the industry to sell insurance policies that pay for nursing-home care.

Next on the wish list: Many insurance lobbyists are counting on key Republican allies to help defeat or scale back an Administration proposal to give banks further entrée into insurance sales. On Mar. 27, new House Commerce Committee Chairman Thomas J. Bliley Jr. (R-Va.) introduced a plan that would allow state regulators to override any federal rules granting banks the right to sell insurance. Bankers fear that lobbying efforts by insurance agents will prevail, producing an unacceptable eventual compromise. "They have the clout to destroy the whole process," laments a bank lobbyist.

It's no accident that the insurers are sitting pretty with the GOP. They have a huge campaign war chest of $6.8 million, and for last year's elections they made nearly half of their contributions to Republicans—more than most other industries. Insurers also have some well-connected Republican ex-lawmakers going to bat for them. One example: former Ohio Representative Willis D. Gradison Jr., who heads the Health Insurance Assn.

Then there's the powerful American Council of Life Insurance. Last year, it replaced retiring President Richard S. Schweiker with outgoing South Carolina Governor Carroll A. Campbell Jr., a former House Republican with close ties to the new GOP leaders. "Every Republican in town will return his calls," sighs an envious bank lobbyist. Indeed, the ACLI risks losing Campbell to the next Presidential campaign: BUSINESS WEEK has learned that Senate Majority Leader Bob Dole already is considering Campbell as a running mate.

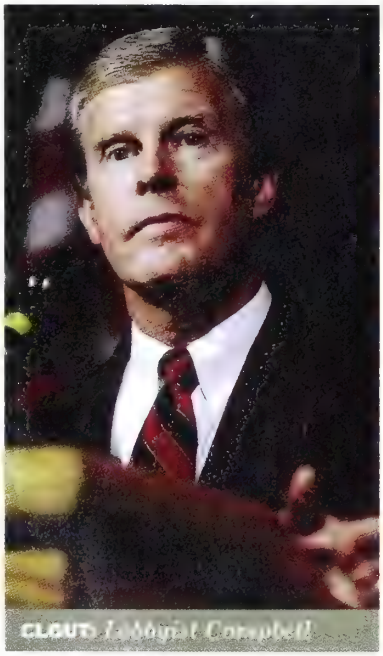
ACLI officials insist Campbell has yet to buttonhole his former colleagues. If so, insurers are doing pretty well without him. After House Republicans introduced product-liability reform to reduce manufacturers' exposure to punitive-damage awards, they persuaded lawmakers to cover service and nonprofit companies, too. "All our suggestions were incorporated into the final [House] bill," boasts one insurance lobbyist.

Insurers also lobbied to guarantee that the House GOP's tax bill included a corporate capital-gains tax cut. Cutting the tax would help all business, but it would help insurers more than most. Citizens for Tax Justice, a Washington policy group, figures they reaped one-fourth of all corporate capital gains in 1991, the latest data available.

GO PRIVATE? Life and health insurers also may cash in on the GOP's hopes of replacing federal health spending with private coverage. "The budget cutters know that they're really going to have to attack Medicare and Medicaid," says John Rother, lobbyist for the American Association of Retired Persons. "Boosting long-term care insurance is the political answer." Indeed, the GOP tax bill, set for a House vote in early April, would give policies that pay accelerated death benefits or cover nursing-home care the same tax-exempt treatment that health insurance now enjoys. These moves, which would cost the Treasury $6.7 billion over six years, could boost sales of such products by 20%.

To be sure, the industry's gains in the House could be reversed by Senate Republicans more eager to cut spending than reduce taxes. But for now, insurance lobbyists can breathe easy. At least when they head for Capitol Hill, they don't have to wear the black hats.

By Dean Foust, with Mike McNamee, in Washington and Tim Smart in New Haven, Conn.



CLOUT: Carroll Campbell

GIVING OUT THE GOODIES

With the GOP in control of Congress, 1995 is shaping up as a banner year for the insurance lobby:

TAX BREAKS Under the House's tax bill, insurance companies get preferential treatment that would help them market lucrative products, such as long-term care policies

ENVIRONMENTAL RESPITE One likely reform to Superfund legislation would allow less-rigorous cleanup of polluted sites where there will be little human exposure—reducing insurers' liabilities

TORT REFORM Insurance lobbyists succeeded in extending limits on legal liability for negligent behavior to service companies and nonprofits, in addition to manufacturers

COMPETITION A House measure that would allow state regulators to restrict insurance sales by banks could derail the Administration's efforts to give banks broad entrée into the insurance business

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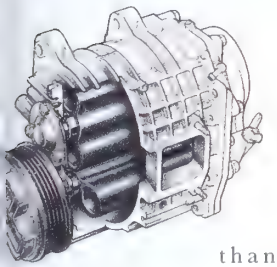

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DEALS

TOKYO MITSUBISHI BANK: BIG, YES. BAD, NO

It may shake up Japanese banking but won't be a global threat

One is the financial cornerstone for the sprawling Mitsubishi *keiretsu*. The other boasts a lucrative foreign exchange business and clout aplenty with Japan's powerful Finance Ministry. Together, they will become the world's largest bank by a long shot. But will the megamerger of Mitsubishi Bank Ltd. and Bank of Tokyo Ltd., which was announced in Tokyo on Mar. 28, trigger defensive tieups among suddenly frantic bankers from Manhattan to Frankfurt?

HAPPY PAIR Announcing the deal: Japan gets a full-service bank at last

Don't bet on it. True, the new Tokyo Mitsubishi Bank, its proposed name, will cast a long shadow. Its asset base of roughly $810 billion would be larger than that of Citibank and Crédit Lyonnais combined. Bank of Tokyo's 362 outposts around the globe will dovetail nicely with Mitsubishi's more domestically focused 346-branch retail network and $416 billion deposit base. Together, the banks will have less bad debt as a proportion of total loans than any of their nine biggest competitors, reckons Merrill Lynch & Co.

THROUGH THE MAZE. But global banking isn't financial sumo, where size means power. Rather than presenting the international industry with a fearsome new threat, the merger—set to be completed by April, 1996—represents an effort to play catch-up. As Japan's byzantine financial rules that separate lending and securities businesses ease, Mitsubishi and Bank of Tokyo see an opening. They want to create the nation's first full-service bank, offering everything from no-frills corporate loans and fund-management services to interest-rate swaps—a mix that many of their foreign rivals are already in a position to offer global clients.

Nor does the merger directly address the fundamental problems bedeviling Japan's banking sector, which needs even more consolidation to weed out weak players. Loan demand is stagnant, and the financial crash of the early 1990s has left roughly $300 billion in bad and restructured loans on banks' books. Japanese lenders' average annual return on equity over the past five years is only 4.7%, less than half what U.S. banks make. But if healthier outfits such as Sanwa Bank, Fuji Bank, Industrial Bank of Japan, and others start pairing off to compete with the new behemoth, a wave of takeovers of weaker banks may ensue.

THE TOP TEN BANKS

	ASSETS IN BILLIONS*
TOKYO MITSUBISHI BANK	$817
FUJI BANK	507
DAI-ICHI KANGYO BANK	506
SUMITOMO BANK	498
SAKURA BANK	496
SANWA BANK	493
NORINCHUKIN BANK	429
INDUSTRIAL BANK OF JAPAN	387
CREDIT LYONNAIS	339**
INDUSTRIAL & COMMERCIAL BANK OF CHINA	337**

*Fiscal year ended March 1994
**Fiscal year ended March 1993

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There's no doubt that Tokyo Mitsubishi will be greater than the sum of its parts. Bank of Tokyo enjoys profitable businesses in foreign exchange, derivatives trading, and overseas banking, but a weak domestic base of 37 branches had dimmed its outlook. And the bank no longer enjoys the monopoly it once held on foreign exchange and trade lending for exporters. Mitsubishi's deep pockets will help Bank of Tokyo expand its presence at home and in derivatives trading.

Mitsubishi, meanwhile, will gain political capital at the Finance Ministry, thanks to Bank of Tokyo Chairman Toyoo Gyohten, 64, the globally respected former vice-minister of international finance. While Mitsubishi Bank President Tsuneo Wakai will become chairman, Gyohten is expected to keep his ties to the new bank. That matters, because the Finance Ministry has only gradually allowed commercial banks to ease into the securities business—a market they desperately want to tap. Gyohten's connections could come in handy, now that Japanese bureaucrats are slowly beginning to let banks branch out into securities trading and underwriting. "We have been on the right track, but it's a slow-moving train," says one Mitsubishi source.

In the U.S., the merged bank stands to inherit a sizable presence in the California market. If U.S. regulators allow Bank of Tokyo's Union Bank and Mitsubishi's Bank of California to merge, the new entity's $25 billion in assets would surpass those of First Interstate Bank of California. But local analysts don't expect Tokyo Mitsubishi to blow everyone else out of the water in California or anywhere else in America. "Relationship banking is the name of the game," says Judah Kraushaar, an analyst at Merrill Lynch in New York. "Does the new name really get them in the door?"

Even if it doesn't, the combination ensures that Mitsubishi and Bank of Tokyo will pull even further ahead of the pack at home. "This will be a flagship competitor," figures Christopher T. Lahoney, managing director of global banking at Moody's Investors Service. At least American and European rivals can take comfort that Tokyo Mitsubishi will be the flagship of a very uncertain fleet.

By Brian Bremner in Tokyo, with William Glasgall and Kelley Holland in New York

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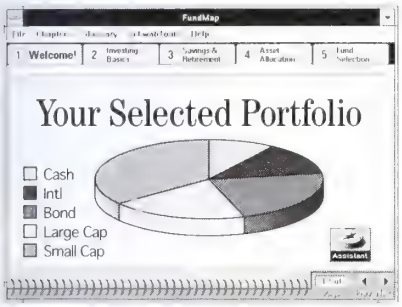

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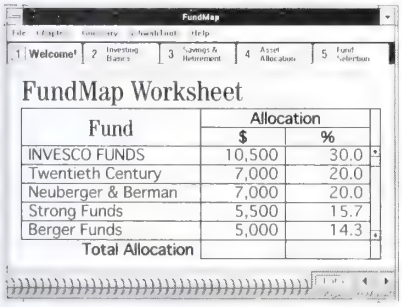

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	$	%
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Twentieth Century	7,000	20.0
Neuberger & Berman	7,000	20.0
Strong Funds	5,500	15.7
Berger Funds	5,000	14.3
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GENIUS WASN'T ENOUGH: *Cray's new company hasn't sold any computers*

COMPUTERS

HOW THE NUMBERS CRUNCHED CRAY COMPUTER

A shifting market and repeated delays drove it into Chapter 11

It was difficult, even for his rivals, not to wish Seymour Cray the best with his latest supercomputer. In a streak unmatched in computing, the brilliant computer architect has been stretching the limits of performance since the days when computers ran on red-hot vacuum tubes. One of his early machines, the CDC 6600, gave IBM fits by executing 1 million calculations a second. In 1976, his odd-looking Cray-1 kicked off what has since mushroomed into today's $2.5 billion supercomputer business.

Lately, in a computer industry known for its self-promoting millionaires, the 68-year-old recluse has become all the more of a hero to fellow engineers. "Seymour Cray is in a class of his own," says Irving Wladawsky-Berger, general manager of IBM's Power Computing Div., which makes and sells supercomputers.

NEW ERA. Ultimately, though, no amount of admiration could make up for product delays and repeated cash shortages. On Mar. 24, having spent an estimated $200 million without selling a single machine since its founding in 1989, Cray Computer Corp. filed for bankruptcy protection.

Although it was just one of a string of U.S. supercomputing makers to bite the dust in recent years, the event marks the end of an era. Gone are the lush cold-war budgets of the government's scientific and code-breaking agencies, and with them the expensive luxury of building computers from the ground up, designing everything from scratch.

Indeed, the high-performance computing market has shifted dramatically. Sales of high-end supercomputers, which cost as much as $30 million, have declined from about $1.5 billion in 1990 to $1.2 billion this year, according to Smaby Group, a market researcher. Cray Research Inc., Seymour Cray's old company, has steadily improved its share there from 60% in 1990 to 75% today as U.S. and Japanese competitors have fallen by the wayside. The real excitement, though, is in machines that sell for $100,000 to $2 million and often harness hundreds of microprocessor chips to attack big problems in parallel. Sales of such computers may hit $1.35 billion this year, up from $1 billion last year.

It's precisely this sense of historical passing that gives Seymour Cray's troubles a certain poignancy. "People around here feel badly for Seymour," says Robert H. Ewald, president and COO [illegible] Cray Research. "You hate to see som[illegible]thing turn out like this for him." Esp[illegible]cially, it seems, because his new m[illegible]chine was his most ambitious ventu[illegible] So ambitious, in fact, that Cray Resear[illegible] decided it couldn't afford to fund it, fo[illegible]ing Cray to spin off his own compa[illegible] and find other backers.

GaAs GUZZLER. As in previous desig[illegible] his main quest has been to cram mo[illegible] tiny electronic circuits into a tight[illegible] space. This yields higher computi[illegible] speeds, but it also makes it more dif[illegible]cult to manufacture circuits and ke[illegible] them cool so they won't burn up. [illegible] didn't help that the inventor opted fo[illegible] difficult-to-use semiconductor mater[illegible] called gallium arsenide (GaAs).

Seymour Cray wouldn't comme[illegible] But it's clear that by pushing on [illegible] many different fronts at once, he r[illegible] into a thicket of design and manufact[illegible]ing problems. His company had to [illegible]vent its own miniature robots to h[illegible] with manufacturing and build n[illegible] equipment for testing its high-speed c[illegible]cuits. And it ended up having to m[illegible] its own GaAs chips instead of buyi[illegible] them outside.

All this added up to delay after [illegible]lay and a string of cash crises. T[illegible] original Cray-3 computer slipped p[illegible] several delivery dates, until the de[illegible]sion was made to scrap it in favor [illegible] the still more advanced Cray-4, wh[illegible] would be twice as fast. Yet all t[illegible] while, Cray's intended market was [illegible] the process of drying up. Governm[illegible] budgets were thinning, and the one [illegible]der Cray did win—from the Lawre[illegible] Livermore National Laboratory—w[illegible] canceled when [illegible] company failed to [illegible]liver on time.

To the end, Cra[illegible] only substantial re[illegible]nue came from [illegible] development proje[illegible] undertaken for the a[illegible]tional Security Ag[illegible]cy. But even if [illegible] Cray-4 shipped to[illegible] "the technology is [illegible] to market," says [illegible]bra Goldfarb of In[illegible]national Data Corp[illegible] market research fi[illegible] And a late superc[illegible]puter, in the end [illegible] still late.

By John W. Ve[illegible] in New York

THE SUPER LINEUP

CRAY RESEARCH The leader, with a 75% share of high-end market

IBM Has shipped more than 370 parallel systems

INTEL Unprofitable but committed to parallel processing

CONVEX COMPUTER Rushing to tap commercial markets

FUJITSU, NEC Still not making money in supercomputers

NICHE PLAYERS Meiko, nCube, and Silicon Graphics

DATA: COMPANY REPORTS, GARTNER GROUP INC

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EXECUTIVE SUITE

A LOCK ON THE JOB

At Borg-Warner Security, there was just one choice for CEO

This is one CEO ouster where the CEO looks like a willing accomplice. When Borg-Warner Security Corp. Chief Executive Donald C. Trauscht agreed to step aside on Mar. 27, he handed the job over to an old friend, Emerson Electric Co. President and Borg board member J. Joseph Adorjan. The pair first met in 1969, when they helped fashion the sale of Borg's electronic-controls business to Emerson. Trauscht invited Adorjan onto Borg's board in 1993.

Initially, the board's idea was to find help for Trauscht, not replace him. But, says board member Dale W. Lang, chairman of Lang Communications, the board was "dismayed by the candidates we'd seen" during almost a year of searching for a chief operating officer who would one day become CEO. Trauscht, 61, says he suggested hiring Adorjan, 56, late last year, but Adorjan wanted to run his own show. And it took little convincing to get Trauscht, worn down from a decade of restructuring Borg, to step aside. "It has been a combat zone," says Trauscht. "I'm looking forward to some quiet."

COMBAT ZONE As Adorjan comes in, Borg faces lower margins and a nasty labor spat

CRIME WATCHER. Now, Adorjan (pronounced a-DOOR-jan) had best don some combat fatigues. Trauscht, other managers, and Merrill Lynch & Co. plunked down $4.4 billion to finance a leveraged buyout in 1987, and Trauscht sold seven units to pare debt. He spun off the automotive division in 1993 and refocused the company on its security business, betting that concern about crime would boost demand for Borg's guard, armored-car, and courier services.

He bet wrong. Steep price-cutting by a flood of new mom-and-pop operators has slashed margins. Borg also failed to push into the fast-growing residential-alarm business, and service was bad at other units. The result: Last year income from continuing operations fell 62%, to $13.1 million, on flat sales of $1.8 billion.

Trauscht says his cost-cutting should slice $20 million from Borg's cost structure. But Adorjan—who becomes president now but won't assume Trauscht's titles until later this year—must get Borg's alarm unit on track. He also has to settle a nasty labor spat that has hurt Borg's Pony Express Courier Corp. Still, he may be helped by his experience at Emerson, which generates fat profits in low-margin businesses—largely by keeping costs way down. That formula is just what Borg needs.

By Kevin Kelly in Chicago

ANNUAL REPORTS

THE DULLER, THE BETTER

For 1994's annual reports, modesty is a virtue

Plain, plain, plain. What's striking about the current crop of corporate annual reports isn't so much what's there as what isn't: no flashy images of male athletes naked but for a pair of athletic shoes (Reebok International, 1990), sumo wrestlers (PepsiCo, 1990), or leather covers (Wolverine World Wide, maker of Hush Puppies shoes, 1993). "Companies are not going for any gimmick at all this year," says Sid Cato, publisher of *Sid Cato's Newsletter on Annual Reports*.

Austerity is hip for a reason: The dominant theme of annual reports for 1994 is "shareholder value." Those two words are a sort of corporate mantra, plastered on the front covers of corporate missives from insurer St. Paul Cos., office-products maker Avery Dennison, and defense giant General Dynamics, among others. AT&T didn't get the mantra on the cover of its report, but it did billboard a mission statement—promising to deliver you know what—on the back.

Executives who didn't deliver what they promised in 1994 mince no words in vowing to try harder. "Your company's 1994 results are awful," begins Robert E. Denham, Salomon Inc.'s chief executive in this year's report. Unisys Corp. CEO James A. Unruh is nearly as blunt: "We didn't do what we set out to do in 1994—namely, to increase our profitability and revenue."

Lots of companies are betting that a bare-bones design will signal to shareholders that they really plan to hold costs down this year. "There is an attempt to design reports so that they don't look so expensive," says Glen Hersh, president of H/M/S Inc., a Montclair (N.J.) producer of annual reports. "Some CEOs want to give the impression to the shareholders that they're watching expenses."

COUPONS, TOO. Examples: Bell Atlantic Corp.'s report is so stark it could easily be mistaken for a proxy. And at MCI Communications Corp., known for flashy annuals in the past, this year's model is deliberately understated. With intense competition going on in long-distance services, some investors questioned the cost of fancy reports. Read-Rite Corp., a maker of computer disk-drive parts, simply sends shareholders a single folded page along with a copy of the 10-K form companies are required to file with the Securities and Exchange Commission.

Some companies take the theme of delivering value literally: IBM encloses a coupon good for a discount on some software. And Goodyear Tire & Rubber Co. offers shareholders a $25 rebate if they purchase four tires. At least Goodyear's stock goes flat, customers can take solace in the good deal they got on a new set of Aquatreads.

By Lori Bongiorno in New York

THIS YEAR'S MANTRA: *St. Paul Cos. is one of many to billboard "shareholder value"*

FAREWELL, FLASH: *In contrast with its past entries, MCI's is bare-bones this year*

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BASKETBALL

THE HOOPLA OVER WOMEN'S HOOPS

Interest is growing–and Corporate America is taking notice

In Stanford's victory against defending NCAA women's champs North Carolina on Mar. 23, 6-foot, 2-inch Lady Cardinal forward Kristin Folkl took a pass in the lane, juked a sweet move, and—ooh, baby!—it looked like she just might slam-dunk it. Folkl got enough air to scrape the rim but broke a few hearts by opting for a sure-thing layup. Later, Coach Tara VanDerveer allowed that a dunk "would have been fun." After all, VanDerveer sighs, "some people still have the idea that watching women's basketball is about as exciting as watching paint dry."

Some people are about to have their eyes opened. When Stanford joins the universities of Connecticut, Georgia, and Tennessee in Minneapolis on Apr. 1, the "other" Final Four will cap off the best year ever for collegiate women's basketball. Attendance, TV ratings, media coverage, and corporate interest (table) are all up—and rising.

It has been an uphill climb for the scrappy women players, who still flinch at the lack of respect they get. But, says Connecticut sports marketer Richard H. Burton, "women's sports are about to explode." And Corporate America is waking up to the same things fans are: These women can play. National Collegiate Athletic Assn. Division I women's teams are chock-full of three-point deadeyes, wily pass thieves, and steel-curtain defenses. "The athleticism of female athletes" is turning heads, says Michael A. Guariglia, vice-president for sports sales at CBS Inc.

All the Final Four games in the 17,000-seat Target Center in Minneapolis have been sold out since September, and General Motors, Procter & Gamble, Gillette, and other big-time spenders had sewn up CBS's 40 advertising spots by January. Those ads aren't philanthropy. Demographics show women's hoops are attracting well-educated, family-oriented fans and, not surprisingly, more women (read: the people who make household buying decisions). North Haven (Conn.) mom Debbie Saranitzky says she and her two adolescent daughters "watch every [UConn] game we can. These are incredible role models for young women." Even financial-services companies such as State Farm Mutual Automobile Insurance Co. and Wells Fargo & Co. want in. "'You shoot like a girl' has become a compliment," says Wells Fargo Brand Manager Andy Anderson. His ads in Stanford's and other collegiate women's sports programs and cable-TV broadcasts "get the same exposure for a fourth of the cost" of working with men's programs, he says.

STUFFED SEATS. Sellouts and 10,000-plus fans at games no longer set records for top teams such as the Tennessee Volunteers and UConn. At Stanford, the average game attendance at Lady Cardinal hoops this season was just a busload short of that for the school's talented men's cagers: 5,284 vs. 5,368. And starting next year, fans at home will see 20 more major women's games on TV, thanks to the NCAA's new seven-year contract with ESPN.

Of course, "all isn't peaches and cream," sniffs one New York media buyer. While teams tend to have fierce regional supporters, the sport is only slowly building a national following th would boost ratings. And without a pr fessional league, even the best wom players enjoy the spotlight only brie before they either hang up their snea or go off to play pro ball in Europe Japan.

Then, there's the hot-dog facto The women's game is intense and fa paced but values good pa ing and other fundamenta as opposed to the me aerial acrobatic shows. Te nessee's Lady Vols, for e ample, have a sign in th locker room that reads: "(fense sells tickets. Defer wins games. Rebounds v championships."

Still, more coaches a urging women players try to slam-dunk, becau they know it would bo the sport. So, when t women hit the hardwo this weekend, keep an e on the rim.

By Joan O'C. Hamilt in Los Angeles

BARN BURNER: *Stanford vs. N.C.*

THE OTHER FINAL FOUR

When Stanford, UConn, Georgia, and Tennessee meet in Minneapolis on Apr. 1, corporate cheerleaders will include:

CBS sold out airtime in the Women's Final Four broadcast two months ago.

ESPN has signed a $19 million, 7-year contract for several NCAA tourneys, including the Women's Final Four.

GILLETTE and **SPRINT** have a disposable-razor promo featuring phone cards with Final Four themes.

STATE FARM will host its third "Hall of Fame Tip-Off Classic" with the top four women's teams in November.

MAJOR TV ADVERTISERS range from Nike, P&G, and GM to FedEx and Burger King.

DATA: CBS, ESPN, BUSINESS WEEK

IMAGE MAKING: *Phone cards*

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EDITED BY KEITH H. HAMMONDS

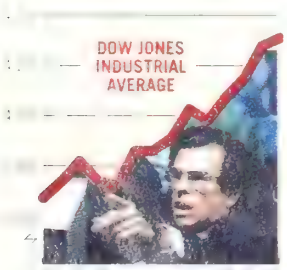
THE LIMITED'S PLAN IS, WELL, LIMITED

IT ISN'T PERFECT, BUT BY now investors in The Limited will take what they can get. The retailing conglomerate on Mar. 28 proposed spinning off two chunks of its operations, one composed of its hot lingerie and personal-care businesses and another of its struggling women's apparel stores. But the parent company would retain 85% to 90% of the newly formed companies as well as specialty stores including Limited, Too, Abercrombie & Fitch, and Henri Bendel. At first blush, Wall Street loved the plan, sending long-languishing Limited shares up 12% on the news. Some analysts said, however, that the spin-offs will succeed only if The Limited is willing to give up bigger stakes in the units.

CLOSING BELL

MIRACLE MARKET

After a year of meandering, the stock market has caught fire. Stocks reached new highs in the year's first quarter, closing at 4161 on Mar. 29. That's an 8.5% gain since Jan.1, putting the index 12.2% above its mark a year ago. What's moving stocks? Treasury yields are falling as inflation fears fade. Then there are strong corporate profits, and a pile of reports suggesting a soft landing for the economy. Perhaps the Federal Reserve had it right.



WHO WILL REPLACE THE FED'S HAWK?

AS FEDERAL RESERVE CHAIRman Alan Greenspan tries to navigate a soft landing this year, he will have to make his approach without one trusted co-pilot: John LaWare, who resigned from the Fed's board of seven governors on Mar. 27. LaWare, a 67-year-old former Boston banker who joined the board in 1988, was considered the central bank's toughest inflation hawk. His departure "is not good news on the inflation front," says a former Fed colleague, Wayne Angell. Possible successors? Wachovia's John Medlin Jr. and Richard Rosenberg of BankAmerica. Among economists: Treasury's Alicia Munnell.

DIAL 'C' FOR CHEAPER CALLS

LONG-DISTANCE PRICES MAY plunge again. The Federal Communications Commission may soon announce plans to force local phone companies to reduce the fees they charge long-distance carriers to connect interstate calls to local networks. The Bells rake in roughly $20 billion a year on such interstate access charges, which account for roughly half the cost of every long-distance call. Companies such as AT&T, MCI, and Sprint are expected to pass much of the savings along to customers.

USAIR PILOTS TRY TO GET TALKS AIRBORNE

USAIR, THAT OF THE UNENDing labor negotiations, finally brought its pilots on board. After eight months of contentious bargaining, the Air Line Pilots Assn. reached a tentative labor contract with management on Mar. 25, agreeing to a 20% salary reduction and 300 job cuts in exchange for a seat on USAir's board. The deal still must be cleared by ALPA's executive council and the rank and file. And to survive, the carrier still must win givebacks from machinists, flight attendants, and other organized workers—who likely won't give up as much as 20%. USAir, which lost $684.9 million in 1994, wants to trim a total of $2.5 billion in wages in the next five years.

HEADLINER: LIZZY GARDINER

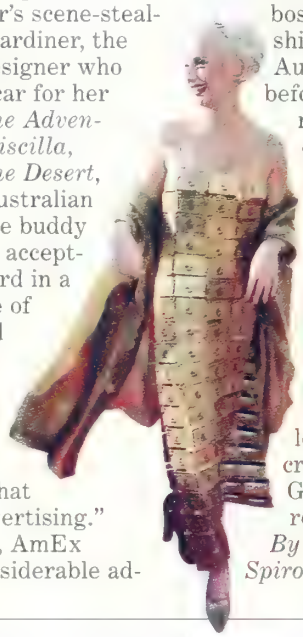
A HEMLINE WITH A CREDIT LINE

Ah, Oscar Night. Full of glitter, gold—and American Express gold cards.

This year's scene-stealer: Lizzy Gardiner, the costume designer who won an Oscar for her work on *The Adventures of Priscilla, Queen of the Desert*, a sort of Australian transvestite buddy movie. She accepted her award in a gown made of AmEx gold cards. Quipped host David Letterman: "You can't buy that kind of advertising."

Actually, AmEx bought considerable advertising for the telecast. It also produced 300 cards with Gardiner's name embossed on the front, shipping them to Australia just days before the ceremony. It took Gardiner 10 hours to punch 6 holes in each card and sew them together. Says Maureen Bailey, the AmEx exec who arranged the fashion statement: "We think it's fabulous, terrific, and creative." And yes Gardiner holds a real AmEx card.

By Leah Nathans Spiro



THIS COULD BE A HEAVY DEAL

WILL CLARK EQUIPMENT deal? On Mar. 28, Ingersoll-Rand threatened to launch a hostile bid for the heavy-equipment manufacturer, revealing that Clark already had rejected a cash bid of around $1.3 billion. Ingers Chief Financial Offic Thomas McBride sa Clark's mix of high-marg products fits nicely with company's industrial mach ery and capital equipme Clark also has a cash hor of $400 million. Most W Streeters think Clark ul mately will capitulate; deed, Clark shares jump 54%. Over the years, C Leo McKernan hasn't he tated to sell any divisi when the price was right.

ET CETERA . . .

- Fidelity's parent, FMR, a an investor group halved stake in Chrysler, to 6.59
- Sprint and partners v lay out $4 billion to enter cal telephone markets.
- Coca-Cola will buy Bar a national root beer bra Terms weren't disclosed.
- Motorola isn't infringing InterDigital's wirele patents, a federal court ru

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EDITED BY OWEN ULLMANN

BEHIND THE BUDGET BROUHAHA, WHISPERS OF A COMPROMISE

How's this for an improbable scenario? By fall, President Clinton and his political archrivals, Speaker Newt Gingrich (R-Ga.) and Senate Majority Leader Bob Dole (R-Kan.), will strike a far-reaching agreement to slash the deficit, reform health care, and provide modest tax relief for the middle class and those reporting capital gains.

Sure, it sounds crazy given the partisan name-calling and bitter debate that suggest Washington is stuck in Gridlock Gulch. But policymakers in both parties quietly hint that a grand budget compromise is in the works. "There is a real chance that Congress and the President can come together," says a top White House official. Adds House Republican Conference Chairman John A. Boehner of Ohio: "I'm pretty confident we are going to get something done. What hoops we have to jump through is still the question."

Clinton and GOP congressional leaders are being driven toward a deal for several compelling reasons. Breaking gridlock will be an invaluable display of leadership for both Clinton and Dole, the leading GOP Presidential contender. Gingrich can't fulfill his vow to slash government and taxes without enough support from the White House or Senate Democrats who can make any Republican plan veto-proof. Incumbents know they'll pay a heavy price in 1996 if they fail to bring the deficit under control. And better yet, both sides already agree that tax increases—deal-busters in the past—are off-limits this time.

INTRIGUE: *Is Dole a hidden ally?*

WINNERS AND LOSERS. Even so, some partisans would like to block a compromise. Some White House political operatives want underdog Clinton to run against a "heartless" GOP in '96, an opportunity he would foreclose by cutting a deal. And some powerful Republicans also prefer stalemate. One beneficiary: Texas Senator Phil Gramm, who is challenging Dole for the GOP Presidential nomination. Gramm recognizes that an accord would help Clinton reverse his image as an ineffectual leader and add to Dole's stature as the insider who gets things done—the essence of the Kansan's campaign.

A compromise would boost GOP deficit hawks as well. Senate Budget Committee Chairman Pete V. Domenici (R-N. M.) and his House counterpart, John R. Kasich (R-Ohio), know that significant deficit reduction can be done only through an overhaul of Medicare and Medicaid, which are expected to cost a staggering $435 billion in the year 2000. Taking on those politically sensitive programs will be much easier if done as part of a bipartisan health-care reform push. While Domenici remains skeptical about Clinton climbing aboard the fiscal bandwagon anytime soon, he concedes major deficit reduction "would be impossible without the President, if he wants to veto it."

As for Gingrich, he is struggling to hold the Contract With America together. His $189 billion tax cut is under heavy assault—even among Republicans who believe it's too generous to the wealthy. And he has been unable to build a consensus for the big spending cuts he'll need to balance the budget. His only hope: Bring more Democrats into the fold.

That won't happen overnight. The White House will continue sniping away at least until May, when Republicans unveil their own proposals to balance the budget by 2002. But as early as summer, the partisan vitriol could be replaced by serious overtures to Republicans, probably led by a group of hawkish Senate Democrats, insiders confide. Explains Representative Charles H. Stenholm of Texas, leader of swing-vote conservative Democrats: "We're looking forward to the end of the first hundred days so we can get down to the serious stuff on the budget." And once they start bargaining, Clinton, Dole, and Gingrich may even surprise themselves.

By Howard Gleckman, with Richard S. Dunham

CAPITAL WRAPUP

REFIGURING STATISTICS

▶ Amid growing criticism that current data collection and analysis miss fundamental changes in the U. S. economy, the Clinton Administration has begun a high-level review of the government's far-flung economic statistics agencies. The goal of the review, being conducted by a task force that includes officials from the Office of Management & Budget, the Council of Economic Advisers, and the Commerce and Labor Depts., is to boost cooperation among sometimes rival agencies, many of which are now barred by law from sharing data. Despite the urging of some private economists, however, the task force is not expected to recommend creation of a single statistical agency, such as Statistics Canada.

TRADE TALK TURNS TOUGH

▶ U. S.-Japanese trade relations are so bad that the usual diplomatic courtesies have given way to caustic exchanges over stalemated talks on autos and auto parts. The latest salvo came in March when Ryutaro Hashimoto, head of Japan's Ministry of International Trade & Industry, sent U. S. Trade Representative Mickey Kantor an in-your-face letter threatening to file a complaint with the new World Trade Organization if Washington doesn't stop pushing Tokyo around. Make my day, Kantor fired back. He said he would welcome a chance to describe the barriers erected to keep American manufacturers out of Japan's market. Now, Kantor is raising the volume, threatening to preempt Tokyo and go to the WTO with his own complaint first.

GERMANY

THE *MITTELSTAND* TAKES A STAND

Rocked by wage hikes and the surging mark, Germany's entrepreneurs are fighting back

For two frantic years, German entrepreneur Harald Korte took painful measures to steer his $80 million auto parts maker, Schöneweiss & Co., through the recession. Axing a quarter of his workforce, he automated the metalworks that his family has run for three generations in Hagen, a town in Germany's industrial heartland. Then, just as the company's outlook was brightening, trouble struck again in March: The big wage hike won by the German metal workers union will push Korte's labor costs up a shocking 11% by yearend.

It's a major blow for Korte—and for the 2.5 million small and medium-size companies known as Germany's *Mittelstand*. The double whammy of the wage hike, plus this year's 10% rise of the German mark against the dollar, have knocked the wind from small manufacturers just as they were staggering out of the recession. But the feisty leaders of this sector, which accounts for two-thirds of Germany's economy, are not taking the challenge lying down. Korte, for example, is ordering new equipment to replace 12 more workers and checking out production in Britain, where labor is cheaper. "We have to be flexible to survive," he says.

BACK IN THE BLACK

Traditionalist owner of steelmaker J.N. Eberle, defied vicious picketing and slashed costs

HOPPING MAD. The fate of much of German industry rests on the *Mittelstand* entrepreneurs. While giants such as Siemens and Daimler Benz are also pinched, they have more cash and have already launched production overseas. To fight rising competition from Asia and survive soaring costs, the *Mittelstand* managers must reach for radical solutions.

Some companies—perhaps several thousand—could go under. But the survivors, by bending the rules and bucking tradition, may alter the face of German industry for good. Their efforts may lead to more companies going public to raise new capital and more professional managers being hired to strengthen the family operations. Many companies are looking to expand offshore. They are even threatening to crack the monolithic structure of wage negotiations.

Already, *Mittelstand* companies are challenging the wage settlement. They are hopping mad at the rigid, pricey outcome. Some argue that employer representatives considered only the pocketbooks of large companies when they negotiated a two-step raise this year on top of a planned cut in the workweek to 35 hours. Others think they simply crumbled in the face of a strike.

So the *Mittelstand* companies are taking matters into their own hands. Probably only 5% will pull out of the employers association: While they could then freely negotiate, they would also be more vulnerable to strikes. But Thomas Bentz, president of the Association of Entrepreneurs, estimates that as many as 50% of smaller companies are stretching the rules to the limit.

GERMANY'S POTENT *MITTELSTAND*

- Includes 2.5 million companies, nearly 40% family-owned
- Accounts for 80% of employment in the private sector
- Comprises two-thirds of GNP
- Relies on exports for 40% of sales

A typical case is J. N. Eberle, a strip-teel maker near Munich. It plunged nto the red in 1993 when Swedish com-etitors flooded the market after the rona was devalued. But owner Heinz Greiffenberger and his 250 workers, raving vicious picketing from IG Metall, greed that for 1994 they would clock 0 hours at 36 hours' pay. It worked. All jobs were saved. The company is ack in the black. "You have to have a trong spirit," he says. "But if we don't hange the system, we will all suffer."

Those companies that can are follow-ng the German giants' lead and pro-lucing overseas. While many in the *Mit-elstand* have long exported world-class roducts, fewer have offshore produc-on. But the pace of overseas invest-ent is picking up. Coffee-machine mak-r Melitta, for example, started ssembling household machines in Portu-al in January.

ICHE SEARCH. Trumpf, a maker of ma-ine tools, is also expanding overseas. fter a slump that forced him to lay off 0 people at his plant near Stuttgart, rumpf owner Berthold Leibinger was poised to post a profit again this year. When the wage deal was announced, he became so depressed that he left work early to take a walk in the woods.

Now, he may pump an additional $2 million into Trumpf's laser-machine plant in Connecticut—on top of an already planned $6 million expansion there—to make the U. S. a major export base. That would leave just research and the most complicated production in Germany. "Germany's time as an exporter is over," he declares.

Not all family companies can afford such overseas investment. Those that can't must increasingly sacrifice their prized independence. J. Eberspächer, which supplies exhaust systems to auto makers, has sales of around $4 million in the U. S. and hopes they will hit $10 million once Mercedes-Benz opens its plant in Alabama. Still, "that's not enough to justify building my own line," says Chief Executive Günter Baumann. With the hefty mark slamming exports, he has licensed production to Calsonic, a Nissan Motor Co. subsidiary with a factory in Tennessee. He is even looking into a joint venture in China.

Most important, the *Mittelstand* companies must improve even on their traditional strengths of flexibility and innovation. Companies such as Cologne-based Igus are breaking with convention. The maker of plastic chains that secure cables on machines now plans to stay open late and take orders of any size until 8 p.m. on weekdays and on Saturday mornings. And Prinz, a onetime utensil maker near Frankfurt, has expanded into solar heating tubes and glass fibers. Says Chairman Hellmuth Huser: "The only way to survive cost pressures is to jump into niche markets with high-tech products."

STRONG ON SERVICE

Frank and Gunter Blase, owners of plastic-chain maker Igus, stay open late to take orders

For many *Mittelstand* companies, the new economic pressures are aggravating a generational crisis. About half of the 600,000 largest companies in the sector are seeking a successor to the current owner or manager right now. That opens the door to more professional managers—sometimes from within the family. Günter Blase, an engineer who founded Igus in 1964, still handles production at age 64. But now son Frank, 35, who has an MBA, is building up marketing and sales.

ON THE BLOCK. Other companies must go outside for new blood. Schöneweiss' Korte, 64, has two sons, but neither is interested in taking over. So next month, he is bringing in a 43-year-old manager experienced in metalworking—the first time in 130 years that someone outside the four owning families took the helm. "We need professionals now," he says.

That sentiment, combined with the need for fresh capital, also means more companies will go on the block. London venture capitalists are already looking for investments. "Five years ago, we were dismissed as exotic, now they want to hear all the options," says Stephen Behr, a consultant at DGM, a unit of Deutsche Bank that specializes in the *Mittelstand*. Gebhard Reusch is one. To raise capital to expand his small company internationally, the 47-year-old maker of soccer and ski gloves sold 100% of his shares last year to Britain's Pentland Group, but he stayed on as president. Now he is launching production in the U. S.

The coming months will be tough for Germany's *Mittelstand*. As they cut costs, export jobs, and change their management styles, they are sure to have an impact on Germany's economy. Tens of thousands of jobs could be lost in the next few years. But the betting is that the majority of the *Mittelstand* companies will survive the crunch. In the process, they may teach Germany's giant companies and its inflexible unions new ways to stay competitive.

By Karen Lowry Miller in Hagen, Germany

...FACES MAJOR CHANGE

- ement of more production to Southern Central Europe and Asia
- ys in investment and hiring plans
- ffice of traditional independence to strategic alliances
- s of ownership stakes to raise capital

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† There is a 1% redemption fee on New Leaders Fund shares redeemed or exchanged within the first six months of issuance. In the pursuit of greater rewards, investing in small capitalization companies involves increased risk. ©1995 Dreyfus Service Corp., Broker-Dealer. Premier Mutual Fund Services, Distributor.

EDITED BY ROSE BRADY

TURKEY MAY HAVE BOUGHT ITSELF A WORLD OF TROUBLE

When Turkish Prime Minister Tansu Ciller launched 35,000 elite troops into northern Iraq on Mar. 20, she was betting on a quick payoff. Some 2,400 insurgents belonging to the Kurdish Workers Party (PKK) have been using bases across the Iraqi frontier to mount raids into Turkey. A swift blow against the PKK would help Ankara turn the tide in its 11-year guerrilla war against the Kurds. And it would lift Ciller's popularity before national elections next year.

But code-named Operation Steel may have backfired. In the first week of the operation, the Turks say only 158 PKK rebels have been killed. With most of the PKK resistance now in mountain hideaways—both in Iraq and Turkey—the danger is growing that Ankara's troops will become bogged down in a no-win situation. Indeed, President Suleyman Demirel now warns that the operation "won't be finished in days, [nor] in a couple of weeks." A prolonged incursion could fuel tensions in the already explosive region.

TROOPS IN IRAQ: *Will Europe punish Ankara?*

DANGEROUS PRECEDENT. The Turkish attack sets a dangerous precedent for the post-cold war era. With its security zone in southern Lebanon, Israel has been the only other state to occupy neighboring territory for a specific security objective. "Now Turkey is doing it, and this could be the first in a long series of similar actions," says Martin Van Creveld, a military expert at Jerusalem's Hebrew University.

More immediately for Ankara, Operation Steel is alienating Western Europe, Turkey's major trading partner. On Mar. 27, German Chancellor Helmut Kohl announced plans to freeze DM 107 million in proposed military aid to Ankara to protest the invasion. The conflict could derail Turkey's long-awaited entry to a customs union with Europe. Paradoxically, Ciller has wanted to resolve the Kurdish conflict to clear the way for democratic reforms such as lifting partial censorship—a condition for Turkey's admission. Although European governments have signed off on the union, the deal still must be ratified by the outspoken European Parliament.

So far, Europe is taking a tougher line than Washington. The Clinton Administration at first gave a green light to Operation Steel. Ankara, after all, is a longtime ally and key backer of sanctions against Iraq. But the Administration, concerned that the invasion might drag on, is now urging caution.

U.S. officials also worry that the operation could sidetrack Ciller from problems at home. "This dissipates the political energy needed for modernizing the economy," says a State Dept. official. Turkey's economy shrank 6% last year. And while inflation has recently slowed, unemployment is still 13%. Ciller also faces religious and ethnic disturbances. Recent riots in Ankara and Istanbul caused 19 deaths.

Ironically, the unintended winner could be Saddam Hussein. The border area is a no-fly area for the Iraqis and that has given the Kurds carte blanche in the region. "Instability in northern Iraq," says Philip Robins, a specialist at London's Royal Institute of International Affairs, "will bolster the view that the Iraqi state should be allowed to reimpose its will over the area." But granting Saddam Hussein any leeway would run into U.S. opposition. This could prove divisive when Ciller heads to Washington for talks in April. In the end, both Ankara and Washington may wish that Turkey had never gambled on Operation Steel.

By John Rossant in Rome and John Doxey in Istanbul, with Amy Borrus in Washington

GLOBAL WRAPUP

NEW TELECOM CHIEF

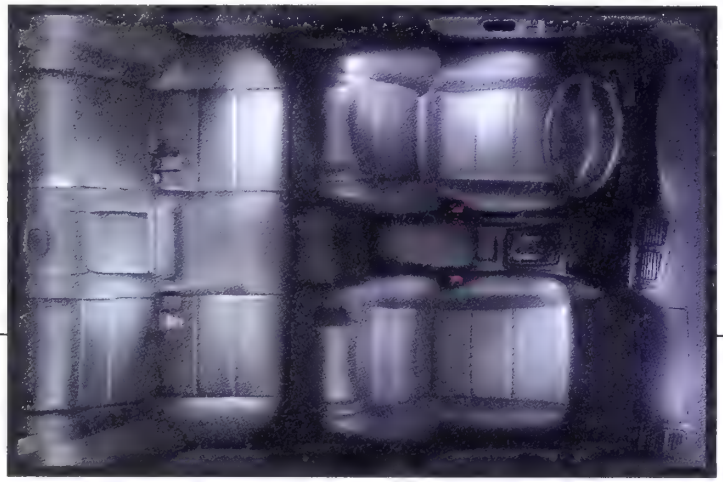
▶ To bolster its management ranks in advance of its privatization next year, Germany's Deutsche Telekom has tapped Ron Sommer, head of Sony Europe, to be its new president. The move underscores the German monopoly's determination to get itself into shape to compete against European, Japanese, and American rivals when Germany's market opens to competition in 1998. Sommer, 45, immediately declared he was up to the task: "I am not afraid of any competitor," he says.

The new boss is an internationalist and a techie. An Israeli-born German citizen, Sommer earned a doctorate in math at age 21. He worked for computer maker Nixdorf—now part of Siemens—both in Europe and the U.S. During Sommer's stint, Nixdorf was one of Germany's hottest tech companies. In 1980, Sony tapped him to manage sales of commercial electronics in Germany. In 1990, he was made president of Sony's U.S. operations, and in 1993 he returned to Germany to run its European business.

Sommer seems confident he can prepare Telekom for the onslaught of competition. "No one has a clear strategic advantage worldwide," he says. "This is a marathon, and we're only in the first mile." To keep pace, he will have to slash the 230,000 workforce at Telekom and vastly improve its service. The stakes are high: Telekom will be one of Europe's biggest-ever privatizations. Global investors are getting the jitters as rivals prepare an attack on the German market that could depress Telekom's value. The pressure on Sommer will only rise.

By Karen Lowry Miller in Bonn

IT'S AS FINELY TUNED UNDER THE ROO



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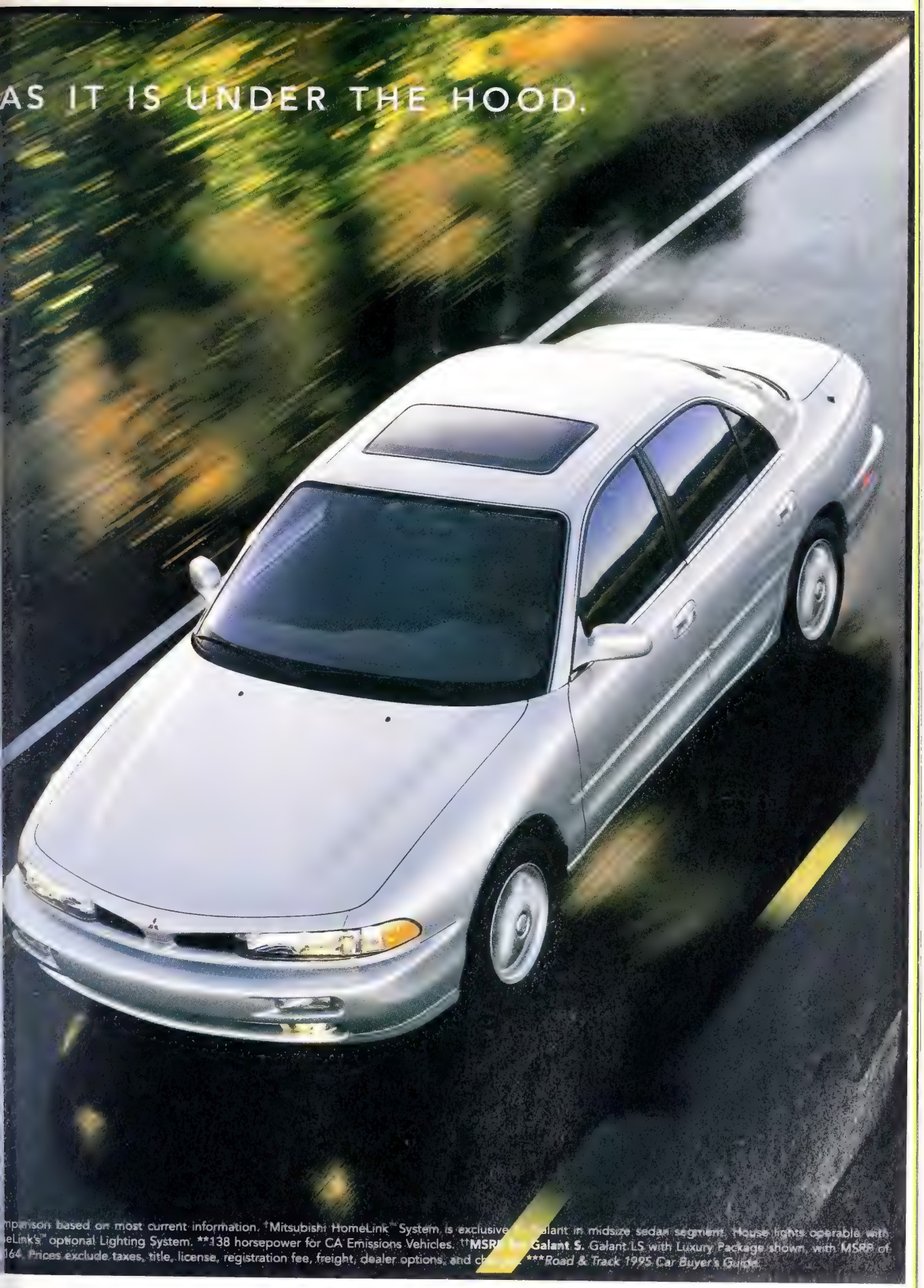

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CABLE TELEVISION

TCI'S ENDLESS MORNING AFTER

It's still short of cash for making its envisioned cable/telephone system a reality

To those who fear him—and there are many—John Malone inspires any number of dark images: Darth Vader, the Godfather, you name it. But as he settled deeply into his office sofa recently, hands cradling a cup of hot tea, the chief executive of Tele-Communications Inc. (TCI) looked anything but fearsome. Malone was still suffering the lingering effects of a flu that had swept through TCI's management ranks. He had spent the previous week at home, glued to the O. J. Simpson trial. "I got mad every time Judge Ito adjourned early," he joked halfheartedly. Even his smile looked tired.

It's been that kind of year for Malone. TCI has been enduring a sort of corporate flu ever since the collapse 13 months ago of its staggering $35 billion merger with Bell Atlantic Corp. The deal was to have been Malone's endgame, a rich reward for the 22 years spent building the world's most powerful cable-television company. Everyone agreed it made consummate sense: In a future where telephone companies would provide TV signals and cable companies would provide telephony, TCI and Bell Atlantic would combine to conquer.

Instead, Malone is fending for himself before a daunting array of problems. Chief among them is how he will finance the cable/telephone system of the future without access to Bell Atlantic's deep pockets. TCI already has a towering $11.5 billion in debt and its prodigious cash flow dipped 3%, to $1.8 billion, in 1994 as a result of government mandated rate cuts. Its stock, which topped 30 in late 1993, is wallowing near 21, and a complicated restructuring plan broached in November hasn't given Wall Street much cheer.

BRAVE TALK FROM THE FOXHOLE

Cable veteran John C. Malone doesn't mince words. This interview with Los Angeles bureau chief Ron Grover proved no exception. Grover caught up with Malone at the suburban Denver offices of Tele-Communications Inc.

Q: *The Baby Bells vow to take a big chunk of your video market. Will they?*
A: That's like Hitler invading Russia and assuming there would be no retaliation. The reality is that no one really knows how, if, or when the competition will evolve. So far, it's just a war of words but not much action. They've announced all kinds of multimedia program ventures, but you can't point to anything that they've actually done.

Q: *They plan to offer a wide range of interactive services—*
A: Market research shows that there are very few services the public has any interest in on any scale. I think we pretty much know what the locomotives have to be to carry these investments. Video-on-demand is a revenue generator, but not nearly as big as they think. I wish I had kept a file, but at one time [Bell Atlantic Corp. CEO] Ray [Smith] had video generating something like $10,000 of revenue per household in New Jersey. Even the Mafia doesn't have that kind of disposable income for communications. It was getting to the point of being silly.

Q: *Are you as capital-constrained as the telcos say?*
A: I have the money I need to do what I want. I built this whole company on a bootstrap. The wonderful thing about doing that is you don't get out of whack with reality. Our strategy is to add services incrementally, using technology as efficiently as possible. We're not a ing a field of dreams—you know it and they will come. The first s services for the Information Sup way will be digital TV, which we late this year, then asymmetrica connect for personal computers. building on what we have, we'll with a much lower marginal cos ture, and that will allow us to u price our competitors.

Q: *You mean the telcos?*
A: Sure. Their entire cost struct just so much higher than ours. B

The heavy spending, meantime, has ready begun (table, page 63). In Feb- ıary, Sprint Corp., TCI, and two other g cable companies laid down $2.1 bil- ɔn in a government auction for licens- to provide a new type of wireless lephone service known as PCS. That vers licenses only; building the system ill cost billions more. At the same me, the specter of competition from e Baby Bells and direct broadcast sat- lite has accelerated cable-industry con- lidation, forcing Malone to use his de- essed stock to go after $3 billion orth of new cable systems. Most re- ntly, TCI confirmed it is negotiating a 00 million deal to buy systems from Chronicle Publishing Co., which would raise its subscriber base to 12 million.

But even spending money hasn't been easy. Malone recently backed the controversial partnership that tried to use a Federal Communications Commission minority tax break to purchase Viacom Inc.'s cable systems for $2.3 billion. That deal wilted when the Republican Congress moved to rescind the FCC program. Although Malone hopes to buy the Viacom systems anyway, he'll end up spending a lot more than the $600 million he first pledged. And if he uses TCI stock, he'll further dilute the shares.

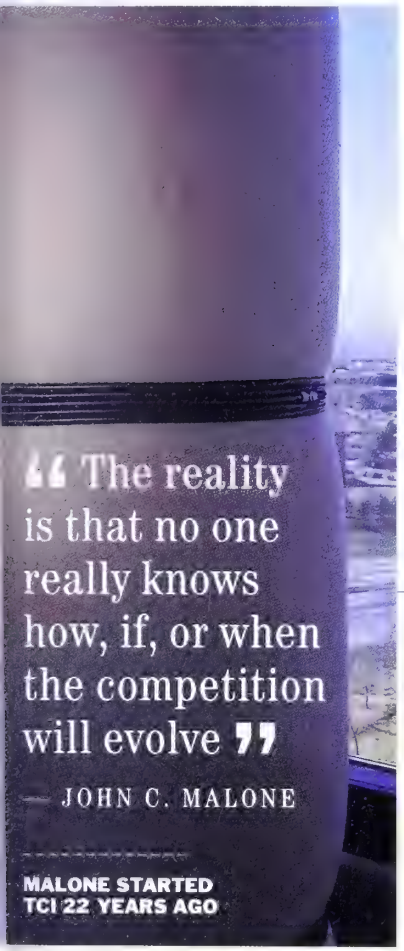
DREAM DEFERRED. Then there's the Turner situation. Malone and Cable News Network magnate Ted Turner have been negotiating for months to buy out Time Warner Inc.'s 19.4% stake in Turner Broadcasting System Inc. That would give TCI, which already owns a 21% Turner stake, 40% ownership of one of the nation's hottest programming companies. Turner and Malone would then launch an effort to buy a network—most likely CBS Inc. The two-step strategy would vault them into the big leagues of Hollywood "content" providers—and offer a nice counterbalance to TCI's distribution uncertainties.

For now, however, that's a dream deferred. Malone insists Time Warner's $1.6 billion asking price is just too high. Sources close to the talks say Time Warner balked when Malone's financing included a note that wouldn't come due for a year. Also, because federal regulations prohibit a cable company—or an outfit controlled by a cable company—from owning a network, Malone and Turner would have complex control issues to hammer out before chasing CBS. Although the embers are still glowing, the talks have ceased for the moment.

Many observers think Malone simply can't afford everything on his shopping list. Bell Atlantic CEO Raymond W. Smith insists it was TCI's cash flow woes that killed their proposed merger. "After years of 8% to 10% cash flow growth, they were looking at five to eight years in which they weren't going to get any growth except for some price increases," he says. Now, he insists, TCI is crippled, doing deals with stock priced near 21 when Malone could have sold out to Bell Atlantic above 30. "It only shows how capital-constrained he is," Smith says. "I don't think TCI has the ability to wage battle."

Malone, of course, has his own strong opinions about competing against the Baby Bells (below). Indeed, he and Smith have made a sport of berating each other ever since the deal collapsed. But while the TCI chief insists he has plenty of resources, most observers think that depends on how you define "plenty." Says one well-placed cable executive: "He doesn't have a lot of dry powder, and as we move from monopoly to competition, you've got to keep your powder dry."

Financial gymnastics are Malone's trademark, and his current strategy is no different. It seems to boil down to this: Use stock—even if depressed—to continue acquiring critical mass and use



ınionized workforce. They are ıp with 100 years of detritus— w, loose stuff on the bottom of ın. It's the residual of having ɔund for a long while. The real At what stage will they be will- acrifice their dividends and their ices for a war of attrition?

ı've signed agreements with Ovitz and Disney to create pro- ng. Does that worry you?

ıot sure what it gets them. I may be smoking pot or some- ıt I thought I had a 15-year contract for all of Disney's movies. And Mike, he's a broker. I've never known a broker to take sides. He'll work for anyone. They say they want guaranteed access to programming, but that's like saying you need to own a share of stock in a dairy to get milk. Money buys programming. Anyone with good programming is going to want to distribute it as broadly as possible. They're not going to say: "I'm only going to sell my product to Ray Smith's subscribers." This is brain damage. Most of what they are doing is designed to stop their competitors from raising capital.

Q: *The cable system that you and U S West jointly own in Britain has captured 30% of the phone market. Is that a model for the U. S.?*

A: Or more. It depends on whether you can offer a superior product. We think our PCS [wireless telephone] product will be superior to anything the public has now, and we'll be able to price it more competitively. So, yeah, we think we can capture a substantial market share.

Q: *The Baby Bells would dispute that.*

A: How do they know? It's been years since they competed with anyone. Let's face it, if you give those guys three drinks, they'll admit they're still two generations away from becoming entrepreneurial. They're moving in that direction, but they're a long way from normal competitive practices.

Q: *You're buying a lot of cable systems. How big does Tele-Communications Inc. intend to grow?*

A: There is a benefit to growth in terms of being able to meet the competition, but we're not interested in growth for growth's sake. That's why I laugh when I see the Time Warner folks saying they're going to be so big. If we counted the way they do and included our affiliated companies, we'd be twice as big as they are. But the object is not to be the biggest, it's to be the richest. The biggest is the one that gets investigated by the federal government.

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verage creatively to do verything else. That's ie idea behind the re-ent restructuring. The an, which is still being orked on, would split CI into four separately aded units that would egregate the cable, pro-ramming, technology, nd foreign operations. ach would have its own ility to raise debt and uity.

Malone also favors a an whereby the Sprint-d wireless consortium ould create a separate mpany to raise the ebt and equity required r the estimated $5 bil-n it will cost to build eir wireless telephone rvice. That would work shield each partner's lance sheet. The prob-m is, because no full-dged PCS system exists, body can say exactly w much one will cost. e level of borrowing wer required is a mov-g target.

Consequently, Malone s adopted what TCI's ief Financial Officer rney Schotters calls walk-before-you-run rategy." TCI has laid t a modest $3.2 billion, ree-year capital spend-g program for its ca-e plant that focuses e most dollars on are-where the company's stems are well-clus-red—areas like San ancisco and Miami. tlying systems are tting an upgrade, too, t won't have as much pacity initially.

OL'S GOLD? This will lay TCI's offering to all its customers the galaxy of interac-e services the Baby Bells and Time rner have been trumpeting lately. t that's O. K. with Malone. He insists t market studies indicate most cus-ners want more channels and first-n movies—not the ephemeral inter-ive services promised by Ray Smith. o much of the other stuff is just ll____," Malone says.

Instead, TCI will focus on providing stomers digitally compressed signals that will allow for twice as many channels and a clearer picture. Malone has spent $100 million to convert a warehouse near Denver into a 200,000-square-foot digital-TV center where signals are being compressed for satellite transmission to TCI systems.

That's Malone's plan. How all this will pan out is an open question. There is no measuring the true cost of competition. And while both the cable companies and the Baby Bells offer numbers that suggest their side will end up being the low-cost provider, that depends on any number of variables from what services customers want to how they want them delivered.

FICKLE BASE. TCI also has its ragged service record to worry about. The company has spent $100 million on new software to speed up service response time. But winning true customer confidence—the kind that leads to a competitive advantage—will take both time and capital spending. Malone admits TCI has a long way to go, and he keeps one recent episode in mind as a motivator: Last year, a local phone company in southern Connecticut began offering cable service to a small number of TCI subscribers. At one point, as many as 20% defected.

Given his predicament, one might expect Malone to be spending most of his time in Washington these days lobbying for the telecommunications bill wending through Congress. If passed as conceived, it would sweep away many of the rate regulations that have dampened TCI's cash flow. That may happen yet, and it certainly would take some of the heat off Malone. But, he says, "I'm not holding my breath." The feisty TCI chief is used to going it alone. Why should now be any different?

By Ronald Grover in Denver, with Michael Oneal in New York

MALONE'S SHOPPING LIST...

WIRELESS SERVICES (PCS)
$700 million for licenses and $2 billion—or maybe more—for a buildup to take place over the next three years

FIBER UPGRADE
$1 billion this year, on top of the $2.2 billion spent since 1993

VIACOM CABLE
$2 billion, maybe more, to buy Viacom's systems

FOREIGN EXPANSION
$2 billion to fund various ventures in Europe, Asia, and South America

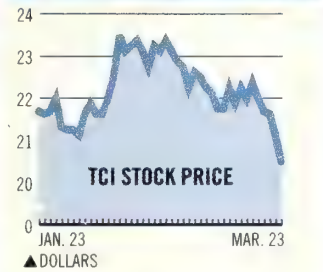
OTHER CABLE DEALS
Up to $3 billion to buy Sammons, TeleCable, and Chronicle

ESTIMATED TOTAL:
$13 billion*

*Actual and expected expenditures in cash, debt, and securities

DATA: COMPANY REPORTS, BUSINESS WEEK

...HAS HELPED SPOOK INVESTORS



DATA: BLOOMBERG FINANCIAL MARKETS

900-555-

Here are just a few of the companies you can call for help and information:

Novell Technical Services
WordPerfect Support
900-555-4010
(First min. free/$2 each add'l min.)

State of Michigan
Security Guard Clearance
900-555-9700 ($5 per call)

STAC Electronics
Premier Technical Support
900-555-STAC ($2.50 per min.)

Ricoh
Printer/Fax Product Support
900-555-RICOH ($10 per call)

Borland
Paradox for Windows Software Support
900-555-1006
(First min. free/$2 each add'l min.)

A.M. Best Company
Insurance Company Ratings and News Products
900-555-BEST ($2.95 per call)

State of New York
Medicaid Provider Line
900-555-2525 (85¢ per min.)

Lotus Development Corporation
Customer Support & Service
900-55-LOTUS ($2.95 per min.)

State of Colorado
Incorporation Information
900-555-1717 ($1.50 per min.)

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SAN
00

"I was thinking, 'If I can just get to the game, I'll be all right.'"

JOHNNY MOORE
SAN ANTONIO, TEXAS

The point guard for the Spurs never made it to that game against the Lakers back in 1985. Instead, he landed in the hospital, where after 10 days he was diagnosed with a deadly infection.

For months, Johnny was plagued by excruciating headaches and terrible nausea. His doctors told him he might go blind and lose the use of his limbs. They said he might even die.

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UNIONS

SMELLING SALTS FOR LABOR?

Clinton's moves to help unions may give them new muscle

Reynolds Metals Co. and Aluminum Company of America never threatened outright to permanently replace their 20,000 union members during 1993 contract talks. Still, the possibility worried union leaders so much that they reined in their demands and didn't walk out. But labor will be tougher when the pacts expire in 1996. The reason: President Clinton's recent order barring employers who hire permanent replacements from doing business with the government, as the aluminum makers do. "The order is extremely important to us," says Ernie J. LaBaff, president of the Aluminum, Brick & Glass Workers union. "Even if the companies don't say they'll hire replacements, it makes us stronger if members know it can't happen."

Labor unions have been complaining lately about how little Clinton has done for them, a core Democratic constituency. But his Mar. 8 order on permanent replacements may help ease that jilted feeling. The move could have a big impact on bargaining at large, unionized companies. Labor also is benefiting from a newly awakened National Labor Relations Board (NLRB), which is moving aggressively to curb labor-law violations by employers.

"SNOWBALL EFFECT." True, Republicans and business groups may yet reverse both efforts. They may try to cut the NLRB's budget and are opposing Clinton's order in Congress and the courts. Republicans also plan to push bills that would weaken safety and health inspections and other pro-labor programs. And even if Clintonites prevail, labor won't suddenly become a powerhouse. Still, the cumulative effect will give unions a boost. "These things have a snowball effect," says Daniel J. B. Mitchell, a management professor at the University of California at Los Angeles. "You could see an improvement in labor's bargaining position and maybe even a turnaround in organizing."

The executive order calls for federal agencies to terminate contracts with anyone who hires permanent strikebreakers. It also allows the Labor Dept. to bar employers who already have hired them, such as tiremaker Bridgestone/Firestone Inc., from bidding on future contracts. The Administration is downplaying the impact, pointing out that only about 19 government contractors a year use permanent replacements. And officials note that the order covers only contracts worth more than $100,000.

But the move is certain to ripple beyond the numbers. More than 90% of the nation's 1,000 largest companies have government contracts over the threshold, federal officials say. And while most large employers don't experience strikes or wind up hiring permanent strikebreakers, many threaten to do so to deter walkouts. Fully 82% of large unionized employers say they would hire replacements if they were struck in 1995, according to a recent survey by the Bureau of National Affairs in Washington. Of those, 25% said the replacements would be permanent. An additional 57% said they hadn't decided that issue—leaving the possibility open as a risk unions must run if they strike.

CLAMPING DOWN. Even a company such as General Electric Co., which prides itself on being an enlightened employer, likes the added leverage. GE says publicly it shuns permanent replacements. But it has long opposed legislation to bar them so labor won't gain clout. Indeed, Clinton's order "would shift the balance of power to labor if it sticks," says Sharon F. Canner, a vice-president of the National Association of Manufacturers, which is fighting the order.

Clinton's NLRB is swinging the pendulum back from management too. One of the agency's most powerful weapons is the court injunction, which helps it to stop employers from breaking the law and delaying the consequences until a union is defeated. In the year since Chairman William B. Gould took office, the board has sought 105 such injunctions, including one against baseball owners on Mar. 27. By contrast, the board requested about 40 a year during the Reagan and Bush years.

Gould is clamping down in other areas, too. The board has set timetables for its 70 administrative judges and has assigned special judges to try to settle cases before they get bogged down in litigation. The board also is considering procedural changes to reduce the endless legal challenges employers mount to block union organizing drives. "The point is to eliminate wasteful litigation and delay," says Gould.

Of course, these changes aren't enough to revive labor. Workers still fear losing their jobs to imports or domestic rivals if they strike. And the NLRB actions do little to deal with employers who illegally fire union supporters, which occurs in a third of all organizing drives, studies show. Still, Clinton is giving labor its biggest leg up in years.

By Aaron Bernstein in New York

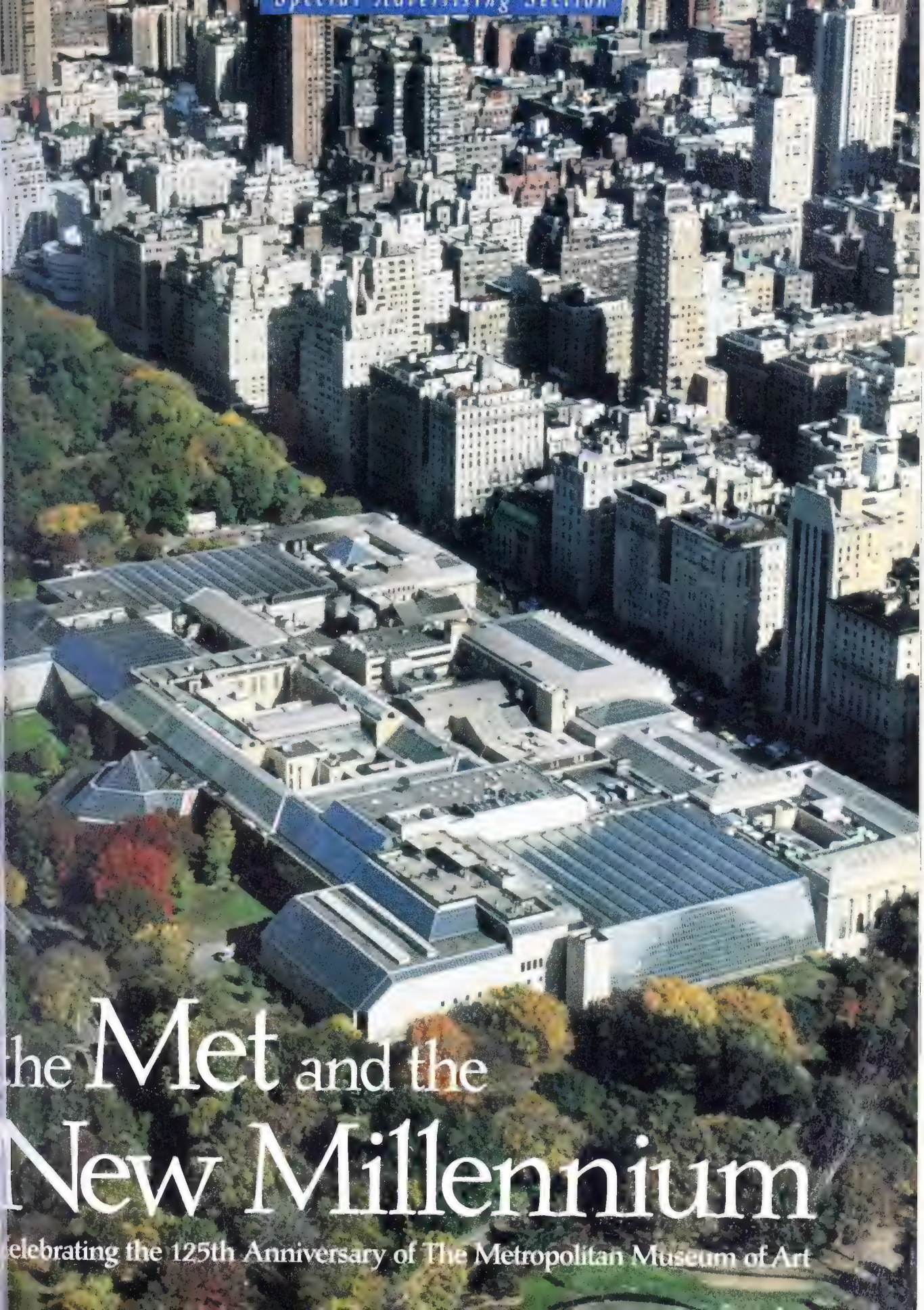
STRIKING BRIDGESTONE WORKERS: THE NLRB MAY BOOST CAUSES SUCH AS THEIRS

Where Labor's Strength Is on the Line

Union bargaining clout has been bolstered by President Clinton's appointees to the National Labor Relations Board and by his recent order banning government contractors from hiring permanent replacements during strikes. Some major labor pacts—companies and industries—coming up this year:

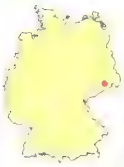
EMPLOYER	NO. OF UNION WORKERS	EXPIRATION DATE
McDONNELL DOUGLAS	19,000	Apr.
CLOTHING MANUFACTURERS	45,000	Apr.
AUTO TRANSPORTERS	16,000	May
AT&T	145,000	May
REGIONAL BELLS	250,000	Aug.
BOEING	35,000	Oct.

DATA: BUREAU OF NATIONAL AFFAIRS



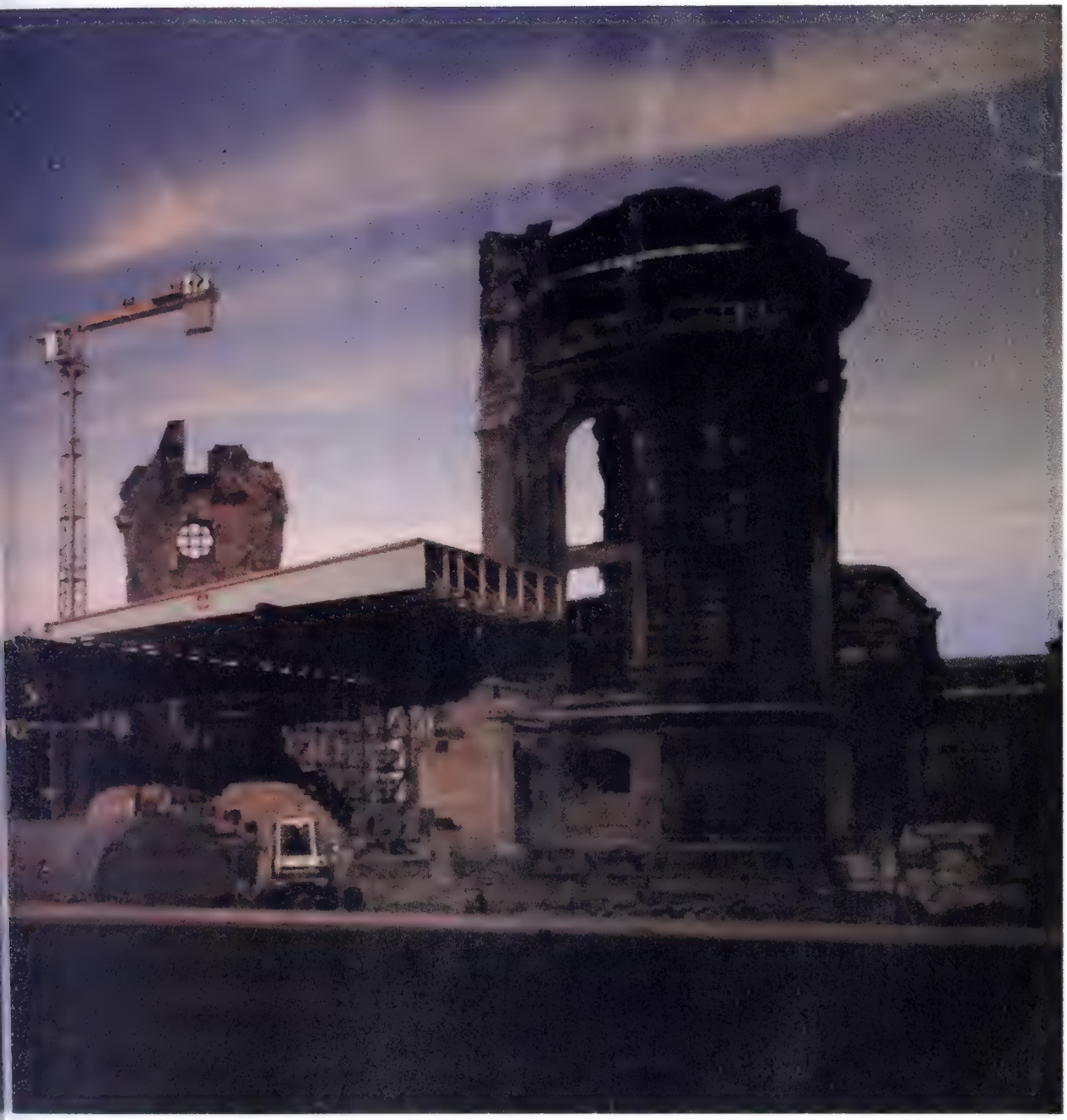
the Met and the New Millennium

elebrating the 125th Anniversary of The Metropolitan Museum of Art



Frauenkirche
Dresden, Germany

IN DRESDEN, FREEDOM RISES FROM THE RUBBLE. Germany's greatest church, the Frauenkirche was destroyed during Allied bombing in 1945. Where Bach and Wagner once performed, there now lies only broken rock. But recently, stonemason Franz Huber and a team of other artisans and architects began to painstakingly resurrect the city's symbol of harmony. Once IBM reconstructed the Baroque



dmark in 3-D cyberspace, the team could begin to rebuild the ruins. Guiding them is an IBM /6000™ running CATIA,™ a computer-aided design tool. By 2006, the church will reach to the ıvens once more, thanks to 18th-century craftsmanship and a powerful 21st-century tool. ıat can IBM help you build? Call 1 800 IBM-3333, ext. G102, and find out.

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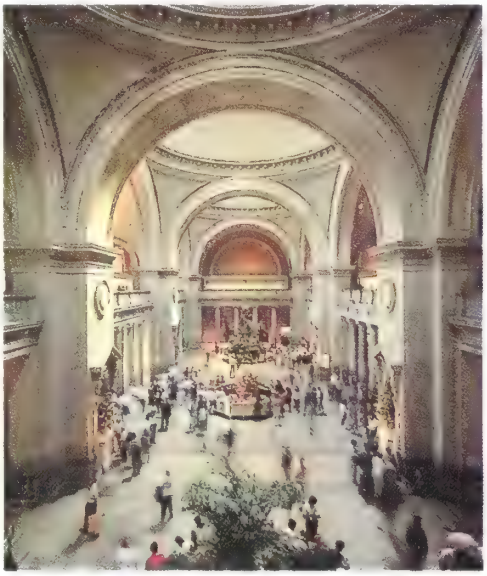
The Met and the New Millennium

By Philippe de Montebello, *Director*
The Metropolitan Museum of Art

There are moments in the life of an institution when it is useful to ponder past, present, and future. Certainly, the magnitude of the Metropolitan Museum's physical expansion over the last quarter century, our dramatically increased attendance, and the scope of our international collaborations—from scholarly exchanges to major exhibitions—attest to a maturity and vitality that merit both commentary and reflection. As we celebrate the 125th anniversary of our founding, we mark, as well, the 25th anniversary of our Master Plan, under which we have literally doubled the size of the Museum to some two million square feet.

The Metropolitan is today a collection of museums—a vast storehouse of knowledge where nearly three million works of art are held for study as well as for display. Indeed, the strength of the Met is that under one roof it provides an almost infinite number of options for many rewarding visits. These can take an infinite number of forms, from random wanderings to planned itineraries, from an in-depth study of a single gallery or exhibition to the exploration of several different cultures or periods.



The Great Hall of the Metropolitan Museum

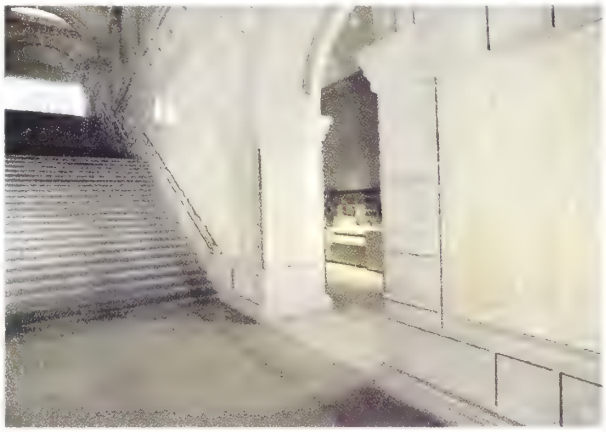
The Met is a universal museum: every category of art in every known medium from every part of the world during every epoch of recorded time is represented here and thus available for contemplation or study—not in isolation but in comparison with other times, other cultures, and other media.

If pleasure and instruction are derived from a Museum visit, as we would wish, it is because the ordering and presentation of all aspects of the collections have been continually informed by the knowledge, intelligence, and sensitivity of superb—indeed unsurpassed—staff of museum professionals. These remarkable men and women, no less than the collections, are what make the Metropolitan the great institution that it is.

THE 1970 MASTER PLAN: A QUARTER CENTURY OF GROWTH

The collections are the raison d'être of the Museum, and the primary stimulus for the 1970 Master Plan was their dramatic growth since the last major addition to the building in 1926. In fact the collections had by 1970 so outgrown available space that only an unacceptably small number of our finest works of art could be put on view. Thus there was an urgent need for new permanent galleries as well as for better public access.

Equally pressing, although less evident, was the need for improved and enlarged conservation facilities that utilized the tremendous technical advances made in this field and a new consciousness of its importance to safeguarding and understanding works of art. Moreover, a far more active exhibition program mandated the creation of new special-exhibition galleries—a goal we have now achieved.



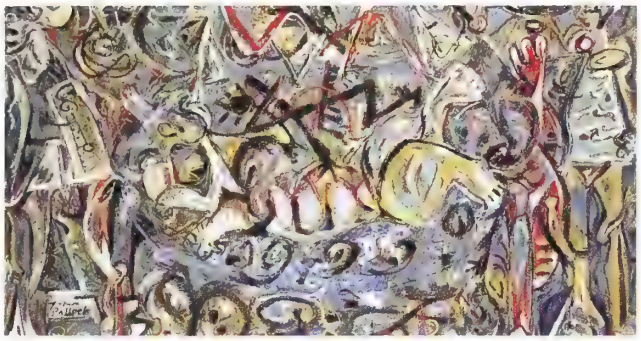
Elements of Museum benefaction are carved into marble panels near the Great Staircase

Yet another imperative was the development of proper storage for the vast portions of our collections not on public view—those indispensable resources of any serious encyclopedic institution.

With these needs in mind, the Master Plan, developed with the Museum staff by the architectural firm of Kevin Roche John Dinkeloo and Associates, was launched in 1970, coincident with the centennial of the Metropolitan.

First, one of the finest and grandest interior spaces in New York City, the Great Hall was restored and refurbished with funds provided by Lila Acheson Wallace, founder with her husband, DeWitt, of *Reader's Digest*. She also established a perpetual endowment for the sumptuous fresh flowers that have delighted visitors

ver since. Mrs. Wallace funded ıe renovations not only of the Great Hall but also of the plaza nd steps as the first of her many reat benefactions, which togeth- r constitute the largest gift of ınds (as distinguished from ifts of works of art) ever made) the Metropolitan Museum y a single donor.



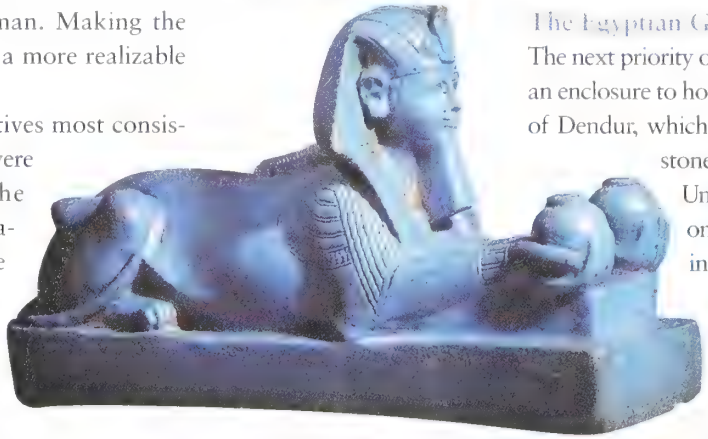
Pasiphaë, by Jackson Pollock, American. Oil on canvas, 1943. Purchase, Rogers, Hewitt, Fund and Hayes, Bequest, Dick Fund, and Joseph Pulitzer Bequest, 1980.

Ultimately, the Master Plan was shaped (with ıll participation by the City of New York) by ɔur crucial imperatives: the need to enlarge the merican Wing (with the approach of the Amer- an bicentennial); the impending arrival f the Temple of Dendur as a gift from ıe people of Egypt to the people of the nited States; the 1969 gift of the lichael C. Rockefeller Memorial Col- ction; and, in 1970, the gift of the obert Lehman Collection.

The receipt of such vast collections, early all at once and without either nds to install them or space in the ıilding to accommodate them would ıve thrown most museum adminis- ations into a state of confusion. A less trepid team than Board President C. ouglas Dillon and Director Thomas oving might have temporized, post- ɔned difficult decisions, warehoused e collections, and launched a building- nd drive. But Mr. Dillon believed stitutions such as the Metropolitan ıly prosper only when they are most dynamic d confident. By the fall of 1971, thanks large- to his leadership, major gifts were in place, ırting with his own and including, among oth- ;, handsome donations from fellow trustees an Whitney Payson, Arthur Houghton, Walter Annenberg, Jane Engelhard, Brooke Astor, and ıarles and Jayne Wrightsman. Making the aster Plan a reality seemed a more realizable al than ever.

The two functional objectives most consis- ıtly articulated in the Plan were improve and enlarge the llery spaces for the perma- ıt collections and to enhance nature and quality of the ɔerience for the Museum itor.

Princesse de Broglie, by J.A.D. Ingres, French. Oil on canvas, ca. 1851. Robert Lehman Collection, 1975.



Faience sphinx of Amenhotep III. Dynasty 18, 1391-1353 B.C. Gift of Lila Acheson Wallace, 1980.

The Lila Acheson Wallace Wing

Of the wings built since 1970 only the Lila Acheson Wallace Wing, located at the southwest corner of the Museum, was *not* part of the Master Plan. At the time, 20th-century art was expected to be integrated into the American and European galleries, because the Met was then more conscious of the inadequacy of its 20th-century holdings than of their potential for growth. The decision in 1978 to devote a wing to post-1900 art in fact fulfilled the founders' mandate to illustrate "the history of art, from the earliest beginnings to the present."

The Robert Lehman Wing

The first new wing built under the approved Master Plan was the Lehman Wing, created to house the impressive private collection assembled by Robert Lehman, former trustee and Chairman of the Board, and by his father, Philip. Their collection was presented to the Museum in 1970. It included 300 paintings, along with Medieval and Renaissance bronzes and decorative arts.

Because a condition of the Lehman gift was that the works remain together, and since it was Robert Lehman's desire to retain the atmosphere of his house on West 54th Street, the solution was a separate wing on the west side of the Museum, which preserved its 1880 facade—a designated landmark. The Lehman Wing, which opened in 1975, is a glass pyramidal structure with a central court and a surrounding two-story space.

The Egyptian Galleries

The next priority of the Master Plan was to provide an enclosure to house the first-century B.C. Temple of Dendur, which had been dismantled into 642 stone blocks in Egypt, shipped to the United States, and stored since 1968 on the Museum's south parking lot in a plastic "bubble."

In 1965 Egypt had offered the temple to the U. S. in recognition of American aid in res-

cuing Nubian monuments doomed by the new Aswan Dam. The Metropolitan proposed an enclosed setting with a dramatic glass exterior to protect the fragile sandstone and at the same time provide natural light and a sense of the outdoors.

The Temple of Dendur opened in the Sackler Wing in 1978. Only recently it underwent a major renovation, which included lowering the parapet walls to afford a better view of the Temple, and installing two colossal sculptures on the banks of the simulated Nile River.

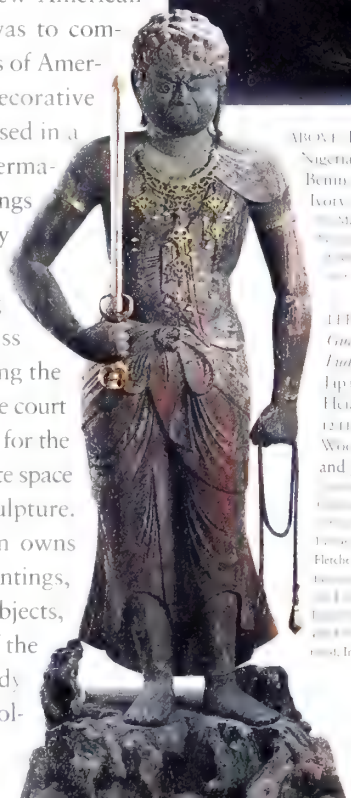
The temple's inauguration followed by two years the completion of the first phase of the comprehensive reorganization of all the Egyptian galleries. Designed to place our entire collection on view for the first time, this prodigious reinstallation of about 70,000 square feet of space was completed in 1983. Every one of the estimated 37,000 objects was put on display, including excavated material representing 30 years of activity by the Metropolitan's Egyptian Expedition from 1906 to 1936.

The American Wing

Similarly, the objective of the new American Wing, which opened in 1980, was to combine under one roof our collections of American paintings, sculpture, and decorative arts. The old wing would be encased in a larger building housing the first permanent galleries for American paintings and sculpture—the Joan Whitney Payson Galleries. The courtyard outside the old American Wing was roofed over and given a glass facade facing Central Park, creating the Charles Engelhard Court. Today, the court serves both as an indoor sunlit area for the visitor to enjoy and as an appropriate space for the display of 19th-century sculpture.

All together, the Metropolitan owns more than 15,000 American paintings, sculptures, and decorative arts objects, but until the 1988 construction of the Henry R. Luce Center for the Study of American Art, much of this collection was kept in storage. The Luce Center makes the more than 8500 pieces that constitute the study collection accessible to scholars and curious visitors alike.

The Jesters Descending the Missouri
by George Caleb Bingham, American
Oil on canvas, ca. 1845.



ABOVE: Pendant mask, Nigeria, court of Benin, early 16th c. Ivory, iron, copper [illegible]

The Guardian King Indra Vajra, Japanese, late Heian period, 12th century. Wood, colors and gold leaf. [illegible] Fletcher, Rogers, [illegible] Inc. Gift, 1975

The Rockefeller Wing

Only two years later, we opened the Michael C. Rockefeller Wing on the south side of the building to house the very large collection of art from Africa, Oceania, and the Americas pledged by then-Governor Nelson A. Rockefeller in 1969 in memory of his son Michael, who was lost on an expedition to New Guinea eight years earlier.

It is fair to say that with the opening of the Michael C. Rockefeller Wing we could claim that the arts of Africa, Oceania, and the Americas were given their rightful place here alongside those of other great civilizations of the world.

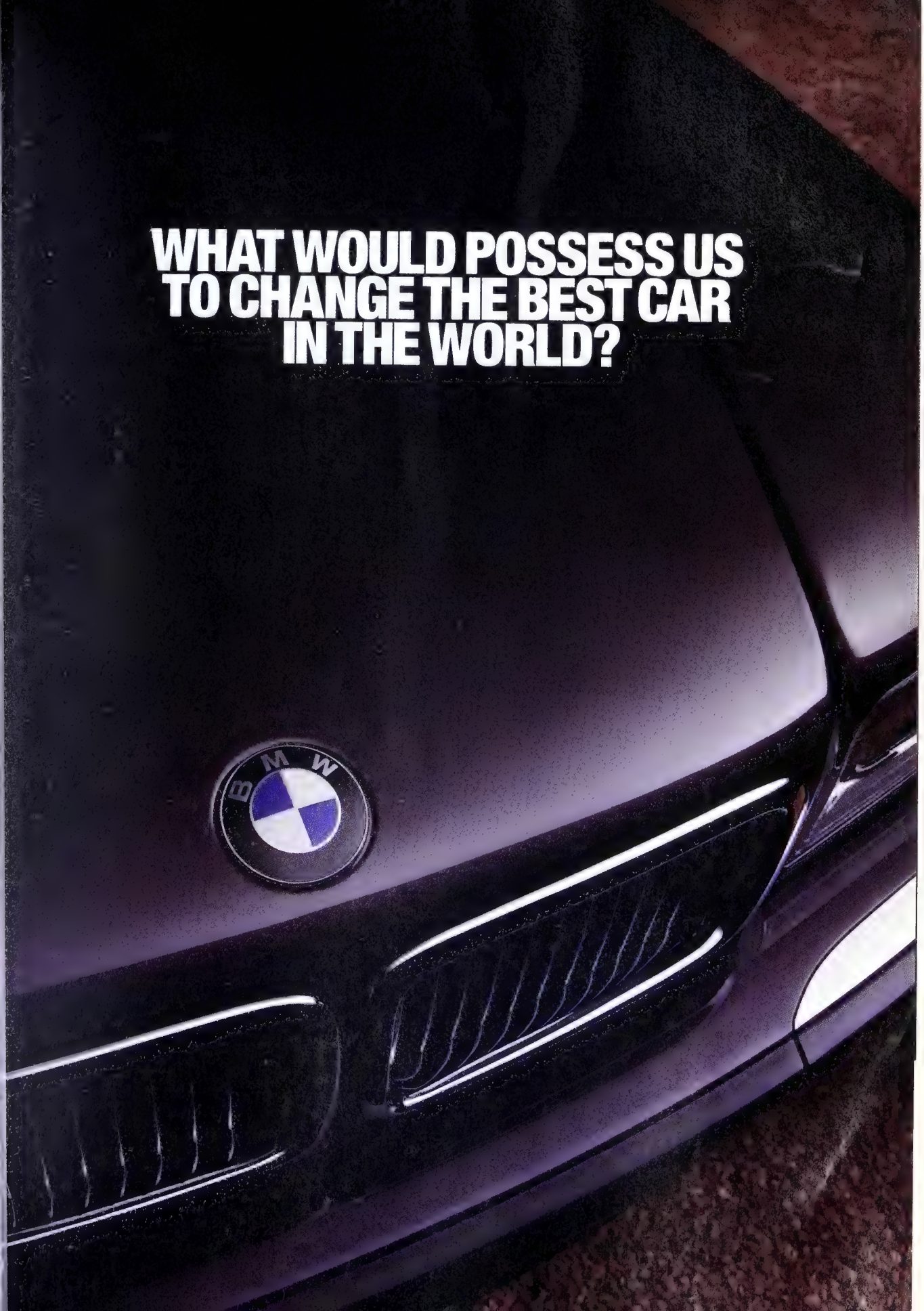
Asian Art

Over the past quarter century we have also dramatically shifted our priorities to the collecting of Asian art, and as a result have come to the point where we may now take pride in having built a collection that rivals the very best anywhere.

The impetus behind this change came from Douglas Dillon, the Museum's President and Chairman of the Board from 1970 to 1983. The opening of the Douglas Dillon Galleries and the Astor Court in June 1981 was the first public sign of the Museum's revitalized Asian art department.

The Astor Court, a beautiful spot for contemplation, was the conception of Brooke Astor, a trustee from 1964 and first chair, now co-chair of the Visiting Committee for Asian Art. The court, based on a Ming-dynasty example at Soochow, was assembled in traditional fashion in 1980 by craftsmen from that city.

The growth of our Japanese holdings has been inextricably linked to the interests and leadership of America's preeminent collector of Japanese art, Mary Griggs Burke, a trustee, member of the Acquisitions Committee, and co-chair of the Visiting Committee for Asian Art.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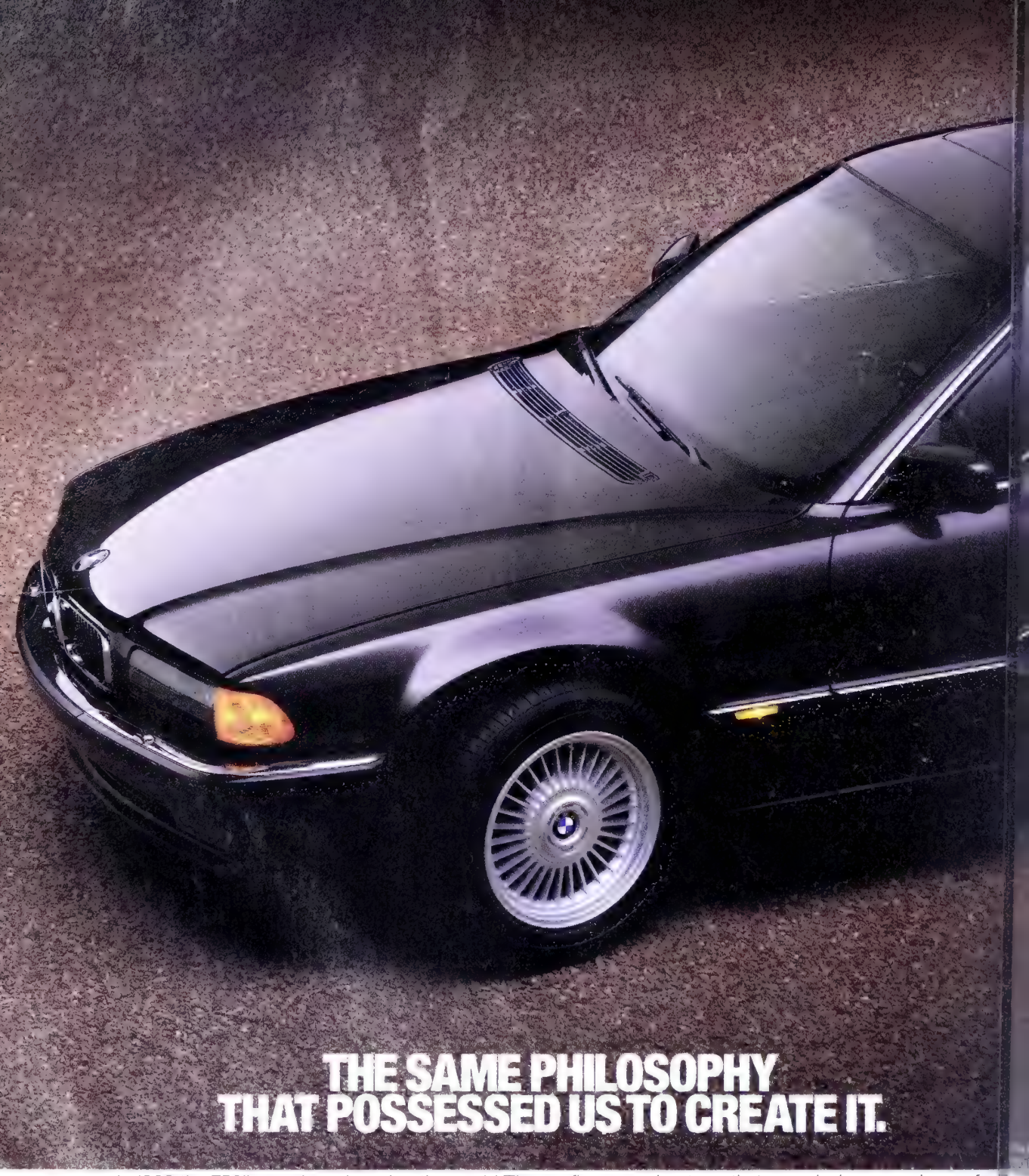

THE SAME PHILOSOPHY THAT POSSESSED US TO CREATE IT.

In 1988 the 750iL was introduced to the world. The reaction was one of awe from critics and drivers alike. Car and Driver has called it the best sedan in the world.*

However, for our engineers there will always be something better on the horizon. And the new 750iL is a shining testament to that fact. It is an automobile which fulfills the desires of those drivers who seek the purest form of a luxury sedan.

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nd Driver, November 1990. **See your dealer for details on these programs. Some exclusions apply. †Service provided by Cross Country Motor Club, Inc., Boston, MA, s except in California, where services are provided by Cross Country Motor Club of California, Inc., Boston, MA. Benefits may vary to conform with the laws of your state.

in the industry, place us a step ahead in illumination nology by adding a further dimension to the 750iL's ty by enhancing your nighttime vision.

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Simply put, the 750iL represents the height of luxury in a sedan. Which only makes sense when you consider that our engineers sought to create the very best car in the world. Again.

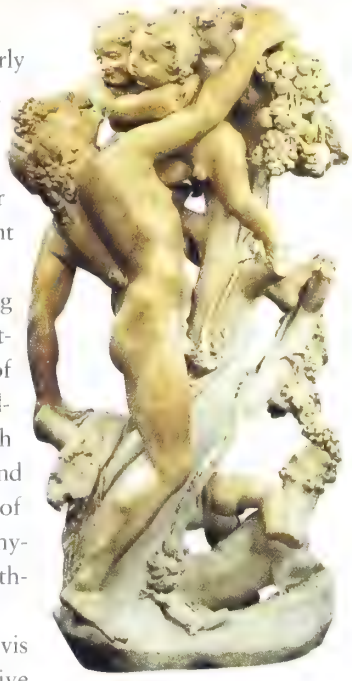
THE NEW 750iL

The Astor Court, modeled on a Ming-dynasty scholar's retreat, opened 1981.
Funds for the court and the Ming Hall at its north end were provided by The Vincent Astor Foundation.

Similarly, the Museum's commitment to early ıinese art has been reinforced by gifts from e Ernest Erickson Foundation and by Charte C. and John C. Weber, whose generosity s been recognized by the appearance of their mes on the galleries for the arts of ancient ıina.

Also indispensable to our Asian collecting lyssey are Florence and Herbert Irving. Recent- the Irvings donated a substantial group of jects as well as the funds required for build- g the galleries that now house our entire South d Southeast Asian collections. The Florence and erbert Irving Galleries, running the length of o city blocks, constitute the largest space anyhere dedicated to the arts of South and Southst Asia.

With the construction of the Henry R. Kravis ing for European sculpture and decorative s, the Tisch Galleries for special exhibitions, d the Carroll and Milton Petrie European ulpture Court in 1990, the physical expan- n of the Museum—its soled footprint in the Park— ne to a close.



Faun Teased by Children, by Gian Lorenzo Bernini, Italian Marble, ca. 1616-17.

useum Courtyards

e Petrie Court, much like Blumenthal Patio and the gelhard Court, is an *aire de os* serving as a display area French and Italian 17th- d 18th-century outdoor tuary, set amidst the rich d varied collections of opean decorative arts. At south side, in the arcade ng the edge of the Kravis ıg, is our distinguished collection of French Italian 17th-and 18th-century portrait busts.

The Arms and Armor Galleries reinstalled 1991

The new first-floor galleries for European lpture and decorative arts in the Kravis ıg made possible a comprehensive instal- on of works from the Renaissance to the unning of the 20th century. Just south of Petrie Court is the Josephine Bay Paul lery (1990) devoted primarily to French n-century sculpture. And adjacent to that ery is the latest of our new Kravis Wing spaces, Florence Gould Galleries, inaugurated in 1993. galleries are arranged in four stylistic group- : Baroque, Rococo, Neoclassical, and Empire.

The Iris and B. Gerald Cantor Roof Garden, opened 1987, the dramatic setting for *The Burghers of Calais*, by Auguste Rodin, French.

Nineteenth-century works in many media are housed in adjoining galleries that were opened in 1991 and named in honor of their donors, Iris and B. Gerald Cantor, to whom we also owe Rodin's magnificent *Burghers of Calais*, and the popular roof garden that bears their name.

Although not specifically addressed in the Master Plan, several galleries for European sculpture and decorative arts have also been added within the building in the last 20 years. Among the most spectacular are the superlative and extensive French interiors and furnishings of the 18th century, all gifts from Charles and Jayne Wrightsman's private collection, which form the core of the 12 beautifully appointed period rooms in the Wrightsman Galleries, the first of which opened in 1969 and the last in 1989.

Jack and Belle Linsky's collection, donated in 1982, was one of New York's choicest in French 18th-century furniture, Renaissance bronzes, European cabinet-sized pictures, and various categories of decorative arts, Russian 18th- and 19th-century porcelain and Renaissance jewelry.

Also on the first floor is a permanent installation of Central European art, funded by Jayne Wrightsman and Mr. and Mrs. John H. Gutfreund. The Gutfreunds also funded the French Renaissance Gallery completed last year.

Another major new occupant of the Kravis Wing is the Sherman Fairchild Center for Objects Conservation, opened in 1992.

The Arms and Armor Galleries

The Arms and Armor Galleries, too, were totally refurbished, with support from Board chairman Arthur Ochs Sulzberger. Among the highlights of this renovation were the first major installation in more than 50 years of our renowned Japanese arms and armor collection, the finest outside Japan, and new settings for a number of spectacular acquisitions.

The Cloisters

The Cloisters celebrated its own fiftieth anniversary in 1988 with the redesign of its Treasury, made possible by Hélène and Michel David-Weill.

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This gallery houses small and precious works such as illuminated manuscripts, silver-gilt and jeweled reliquaries.

19th-Century European Art

Perhaps the most important recent gallery change in the building was the renovation of the spaces for 19th-century European paintings and sculpture.

Our principal goal was to provide a more coherent presentation of the collections by expanding the available wall space and creating a Beaux-Arts setting that was more in keeping with what the 19th-century artists might themselves have envisioned for their works. Then in 1991, Walter H. Annenberg announced the anticipated bequest to the Metropolitan of his fabulous collection of Impressionists and Post-Impressionists. The timing was perfect. We were able to adjust the plans so that the Annenberg Collection could be shown as a unit in the midst of our own holdings.

These rooms are now in harmony not only with the art they contain but with the main Museum building itself—a building now vastly and permanently changed by the Master Plan.

The 19th-Century European Paintings and Sculpture Galleries

Before and after views (shown in a model) of the paintings by Giovanni Battista Tiepolo for the Ca' Dolfin, Venice. The canvases will be reframed to conform to their original irregular shapes as set into the walls of the Venetian palace.

TOWARD THE NEW MILLENNIUM: BUILDING FOR THE FUTURE

As much as the Metropolitan accomplished between 1970 and 1995, much remains to be done. True, the broad outlines of future space needs and allocations within the existing building are now fairly well determined. We can now see ahead, into the new century, to the completion of most of our planned major gallery installations and support facilities—to the realization of most of the 1970 Master Plan, or, to borrow Catherine de Medici's term, our "grand dessin." She used those words to describe the Louvre's own master plan, initiated in 1565 and only now nearing its final phase as part of the Gran Louvre project. Our own Mas ter Plan should be finished in somewhat shorter span of time

Among our goals now are t seize every remaining foot o unused, available space withi our established footprint, and t redesign and improve the ga leries as yet untouched by th Master Plan. The Metropolitan in short, will be building fro within.

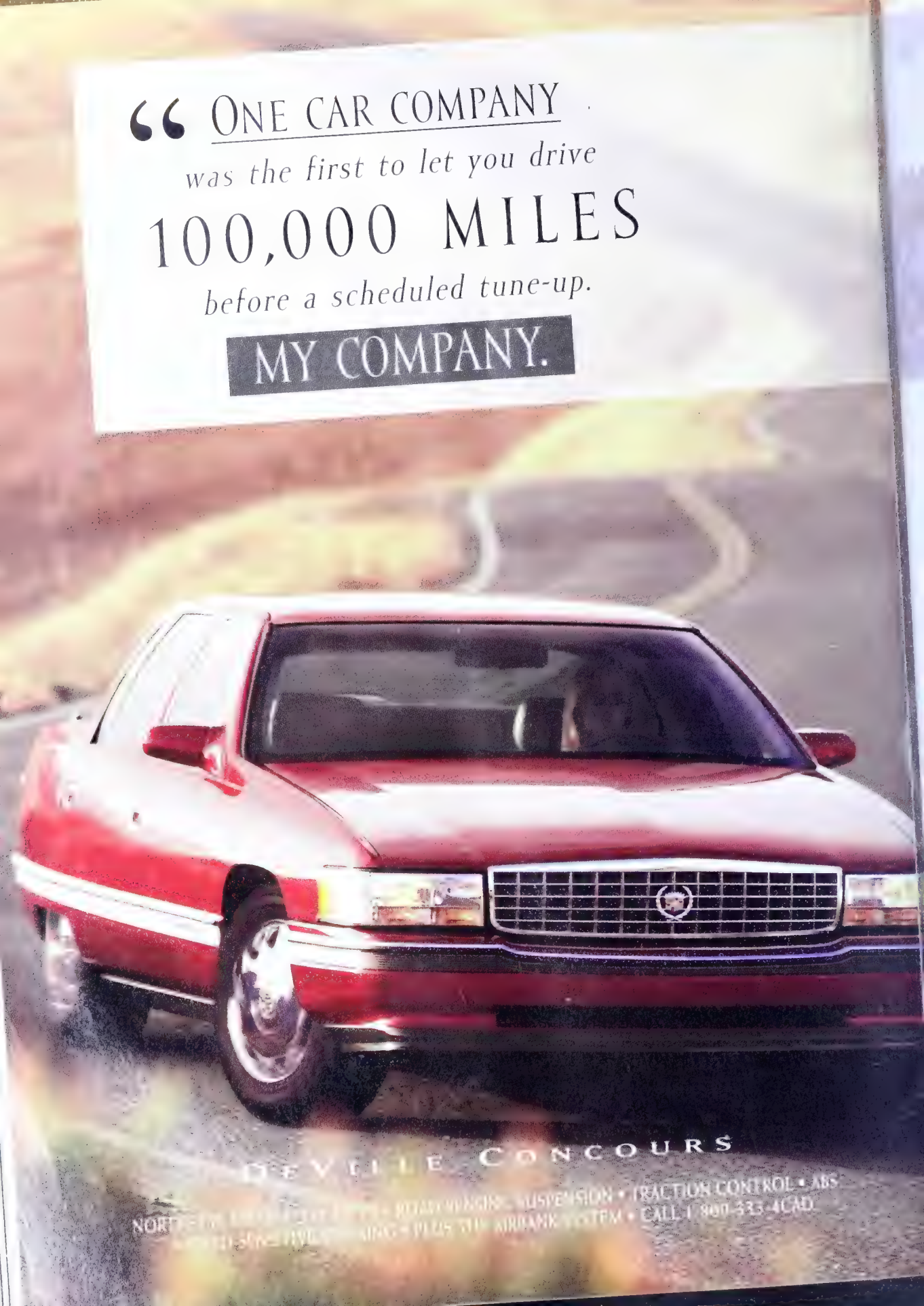
The significant projects planned include th completion of the spaces for Asian art, creatin on the second floor at the north end of the build ing a vast new museum within the Museum This area will eventuall constitute, in effect, th largest Asian art museum i the Western world.

As we approached th Museum's 125th annive sary, it also seemed natur to focus on the most prom nent of our spaces, that the top of the Grand Stai case where our preemine collection of Tiepolo pain ings is displayed. The reinstallation will be enhanced dramatical by a higher ceiling and the restoration of th arch to its original state, a project that requir major construction, generously funded by Dr Heinz.

It may come as a surprise to many of our v itors that if asked what is our greatest si gle work of art of the Italian Renaissan we might name a consummate masterpie that has not been on view for over thr decades: the *studiolo* (or small priva study) from the palace of Duke Federigo Montefeltro at Gubbio, in Umbria. This s *diolo* was largely conceived in terms of illusionistic wainscoting, in which tromp l'oeil images were ingeniously executed intarsia by a leading Florentine worksh of the 15th century. After years of painsta ing restoration, aided by the generosity Board Vice-Chairman Annette de la Ren we will reinstall the room in the first of our n Italian galleries.

Detail of panel from the Gubbio *studiolo*.

The Carroll and Milton Petrie
European Sculpture Court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CADILLAC

CREATING A HIGHER STANDARD.™

In the new Annie Laurie Aitken Galleries, our extensive collection of English decorative arts from the early 17th to the late 18th century will at last be shown in a setting that complements its quality and importance.

Spring, Coptic. Wool and linen panel, ca. A.D. 400-450.

The Textile Collection

The Met also houses one of the finest and most comprehensive collections of textiles in the world. Its more than 40,000 textiles come from every culture over three millennia and include tapestries, carpets, embroideries, lace, ecclesiastical vestments, and archaeological fragments.

Although textiles require careful preservation, ours have long been stored in various departments around the building, mostly inaccessible and in poor environmental surroundings. Clearly, this was a situation in urgent need of redress, and now, thanks to a major grant from the Fondazione Antonio Ratti, we are constructing on the ground level an over 25,000-square-foot study and storage facility and conservation laboratory, where almost all of our textiles will be brought together under optimum conditions with easy access for scholar, student, and layman alike.

We expect that it will be the largest and best-equipped textile center in any art museum. And to provide easy access to the textiles and yet minimize their handling, images and information about all the pieces will be retrievable from computer monitors installed in a new reference center.

Emperor Augustus, cameo. Roman, A.D. 41-54.

The Greek and Roman Collections

Surely the most ambitious project for the future will be the comprehensive reinstallation of the Greek and Roman collections, numbering some 35,000 works of art and archaeological materials. This project is already in the planning stages, spurred by a generous leadership gift from collectors Robert and Renée Belfer.

One of the new restaurants (shown in a model) resulting from the Greek and Roman renovation will be built on the existing deck surrounding the Robert Lehman Wing.

This complex plan i made more formidabl because of the difficult logis tical problems we confront i returning to the Greek an Roman department the spac now occupied by our publi restaurant and cafeteria, whic until 1949 had been devote to Roman art. Sadly, eve since, the magnificent hold ings of this department, espe cially metalwork, glass, te racottas, and engraved gem have largely been off viev and too much of the art th has been displayed has bee crowded into galleries th were left unimproved.

Now the time has come for a complet reassessment of this department's collections.

Although we continue to explore the ide scheme of the installation, our current thinki is to combine various media within each give culture—whether Minoan or Mycenaean, Att or Etruscan—thus providing a more vivi varied, and historical display. Greek art wou be shown off the Great Hall in the newly desi nated Robert A. and Renée E. Belfer Court (no devoted to Roman art), and in the grand barre vaulted corridor (now used for Cypriot art a Roman frescoes) and the galleries on either si of it. Roman art would be exhibited in the sk lit atrium that currently houses the public resta rant, in the adjacent service facilities that will vacated, and on a newly built mezzanine lev We will also fill in the att above the atrium with structure for much-nee storage, offices, and perha some additional exhibiti space.

In moving the restaura and cafeteria, we will impro service to the public by p viding more seating capaci Instead of one large eati facility with its inevita long lines, there will be two separate new dini areas, one on the deck surrounding the Rob Lehman Wing and the other near the Costu Institute.

Grasp

"Everything we do starts with knowing a client's business inside out. That's the key – to anticipating their needs, to solving their problems, to bringing them opportunities they might not find on their own."

Whether we're arranging a financing in Hong Kong, completing an acquisition in Italy, or helping to structure a distribution channel for new products in Latin America, we serve our clients by following a few simple rules. Understand their objectives. Understand their business. Understand how to make the relationship last.

›rporate finance and equity research professionals, New York

JPMorgan

Special Exhibitions

At the Metropolitan the collections remain the primary destination for many visitors, especially those who come from out-of-town or out of the country. For others—particularly from the Tri-state area—the opening of a loan show is increasingly the reason for their visit. But because exhibitions are of a temporary nature, their novelty and newsworthiness make them the most visible and sought-after of the Museum's programs. The public obviously enjoys an attractive and well-informed exhibition, and the Museum benefits from increased attendance—we regularly and gladly cite the figures. Loan shows are expensive, however. Funding them is difficult, and the collections-related work of the institution is often disrupted. But without special exhibitions, our large audience of repeat visitors would come less often, and they would feel a genuine sense of loss, as would the international community of scholars and connoisseurs.

Five banners attest to the increased pace of activity at the Met

This is not merely because exhibitions are glamorous activities, but because through them the Metropolitan Museum maintains its position worldwide as a potent force in international exchanges, and because they fulfill a critical, indispensable, art-historical, and educational function that is directly tied to the collections. Exhibitions are indispensable because only in their aggregate can the world's museums preserve mankind's artistic heritage. No single museum—not even the Metropolitan, the Louvre, or the Hermitage—can ever hope to represent any artist, style, or civilization so fully that exhibitions are not needed to complete the picture.

Loan exhibitions will thus remain the means by which museums supplement the deficiencies in their own collections or build upon their own strengths. They will provide endless ways of exploring art in new and challenging juxtapositions, and since each work of art is unique the presentation of those not ordinarily available is a source of both great joy and instruction.

Mayor Kevin Roche and Philippe de Montebello with a model of the Robert A. and Renée E. Belfer Court

Today we attract ever more visitors (4.6 million per year), and as our surveys show more *satisfied* visitors than ever before. We should not view this achievement with complacency, though. No matter how heartening the present numbers, we must continue to broaden our audiences further—widening our outreach with the new media and imaging technologies, for example—so that it may truly be said that the Metropolitan belongs to all people. Broadening audiences, though, is not the same as merely increasing attendance, and we should always remember, when devising activities aimed primarily at increasing attendance, that first and foremost we must thoroughly understand and protect the quality of the experience our many visitors now seek—and find—at the Metropolitan. Our real challenge in the future will not be how to find ways to transform ourselves, but rather how to maintain the quality of that experience in the face of whatever confronts us.

When we reach the new millennium almost all of the projects described on these pages will have been completed. With the help of our friends and supporters, we will have built an institution that represents the culmination of policies born of clarity of purpose, authority in the ordering of the collections, and of an ever-present sense of public-spiritedness.

All of these imperatives amply fulfill the trust placed in us by the Museum's founders when they created this wondrous institution 125 years ago this month "for the purpose of...encouraging and developing the study of the fine arts... advancing the general knowledge of kindred subjects, and, to that end, of furnishing popular instruction and recreation."

STRATEGIES

THE FADED COLORS OF BENETTON

Picture flat sales, family conflict, and angry store owners

uciano Benetton, the marketing genius behind the most widespread apparel network in the world, is no hrinking violet. With his long, curly ocks and toothy smile, the 59-year-old talian loves being photographed, wheth-r working out with barbells or vrapped in his trademark colored weaters. Two years ago, the clothing mperor even posed nude for a charity d campaign for the homeless.

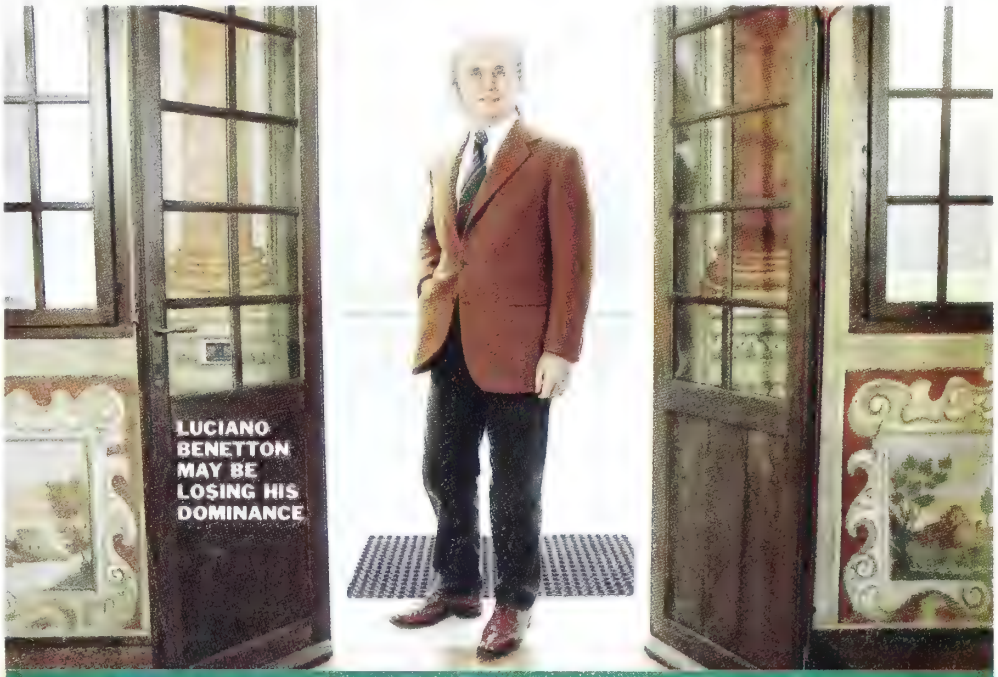
But these days, Benetton is trying o project a more serious image—with ood reason. The international pparel empire he runs along vith brothers Carlo and Gilerto and sister Giuliana is truggling. European recession nd a furor over Benetton's ontroversial ad campaigns ept sales virtually flat, at 1.69 billion, in 1994. As operting profits tumbled 5%, to 245 million, margins slipped 13.9%, well below the 14.7% ıey've averaged since 1991.

That's only the latest bad ews from the global retailing iant, whose lookalike stores om Brazil to India to Argenna make it the McDonald's the fashion business. Comany insiders say the Benetton mily is increasingly riven by onflicts over strategy—and ıat long-dominant Luciano is sing power to his brothers. any suspect that family inghting was behind the surise resignation in January of ell respected managing direcr Aldo Palmeri.

MILOUT. The growing list of roblems comes even as Edione Holding, the Benettons' ivately held investment comıny, is rapidly diversifying to unrelated businesses (tae). After a move into sportg goods, the Benettons, along th partners, have recently ent $1 billion building a stake in Italian chains of superstores and highway restaurants. Yet investors in the publicly traded apparel group increasingly fear that the family's forays could divert attention from the core business. In the U.S., Benetton's American depositary receipts have skidded from 36 last May to around 17. That's far below the $30 apiece Benetton's ADRs fetched when they were issued in January, 1994. Institutional shareholders such as Lehman Brothers and Putnam Investments Inc., attracted to the shares by the chain's history of double-digit growth, have been bailing out. "They sold an equity story that got worse, not better," says Toby Radford, a London-based analyst for Lehman Brothers. "We've been major sellers."

Most damaging have been growing disputes between Benetton, based in Ponzano Veneto, an hour from Venice, and the owners of some of its 7,000 stores. A number of messy legal battles with store owners in Germany, France, and now Italy have dampened sales even as the sharp decline in the lira since late 1992 has sent other Italian exporters roaring ahead.

FAST GROWTH. The problems stem from Benetton's franchise-style operation and the company's effort to streamline distribution in the wake of a tough European recession. While most clothing retailers, such as Gap Inc., own their outlets directly, Benetton relies on a system in which local entrepreneurs put up capital for new stores. The method allowed Benetton to grow explosively, but it's showing increasing cracks and strains. In



The Benetton Family Spreads Its Wings

In addition to 71% of the clothing group, holding company Edizione owns:

100% of Benetton Sportsystem. Since 1989, the group has acquired Rollerblade, Prince tennis rackets, Nordica ski boots, and Kastle skis.
1994 revenues: $650 million.

64% of GS-Autogrill. In January, the Benettons and their partners agreed to pay $610 million for a stake in this chain of supermarkets and highway restaurants.
1994 revenues: $2.7 billion.

100% of Euromercato. In February, the family and its partners agreed to pay $500 million to take over Italy's leading superstore chain.
1994 revenues: $800 million.

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the late 1980s, American store owners charged in dozens of legal disputes that Benetton encouraged too many stores to be built too close together and failed to supply them adequately, forcing the company to pull back in the rich U.S. market. From around 500 stores in the late 1980s, only 150 remain.

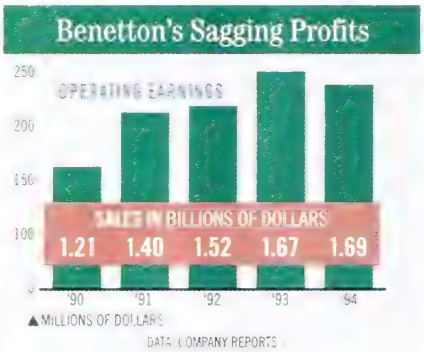
Now, similar wrangles seem to be on the rise in Europe. In Germany, Benetton is enmeshed in a dozen separate lawsuits with store owners who are refusing to pay for several million dollars' worth of goods. The retailers have countersued, claiming Benetton's controversial ads—which have featured photos of dying AIDS patients and Palestinian refugees—have turned shoppers away in droves. In France and Spain, store owners, faced with threats of consumer boycotts, are also complaining.

Luciano Benetton counters that poor sales were the result of the European recession and price cuts the company ordered to maintain its market share. "The only problem when you cut prices is that your sales don't [necessarily] increase," he says. He asserts that the poor performance came primarily at stores with weak management. With a German court ruling expected in May, one verdict is already in: 1994 sales in Germany—Benetton's second-largest market after Italy—fell by $35 million, or roughly 16%, and analysts expect an additional 10% drop this year.

"TIRED CLOTHES." The highly public spat over advertising may be hiding a more serious operating problem. Benetton is embroiled in a lawsuit with Santomo Abbigliamento, one of Italy's largest operators of Benetton shops. Marco Prosperi, a Santomo executive, gripes that Benetton often ships goods late—and that it's lagging behind rivals who change their product lines far more frequently. "They're selling us tired clothes," Prosperi says.

That's a bad sign. Benetton, which led a retailing revolution in the 1980s with its breezy, casual clothes at highly affordable prices, increasingly looks like a fashion has-been. Even as retail competition is getting stiffer, store owners complain that Benetton comes out with only two seasonal collections a year. By contrast, U.S. market leader Gap changes styles every four to six weeks, while Zara, a fast-growing Spanish retailer, presents new items almost every month. "The trend is clearly going toward a much more constant change of product, and Benetton just has to learn that," says Keith Wills, European retail analyst for Goldman, Sachs & Co. But so far, Luciano appears little concerned. Dismissing the complaints, he argues that "two collections a year is perfect."

Elsewhere, however, Benetton shows signs of heeding its store owners' worries. The company spends just 4% of its total sales on advertising—much less than any other leading retailer. And until now, that ad spending has gone exclusively into the controversial campaigns—focusing on social issues such as AIDS, racism, and ethnic violence—that Benetton's quirky creative director, Oliviero Toscani, has spearheaded. Now, though, Luciano says "shock" images are a thing of the past. In recent months, Benetton has quietly begun



While Gap changes styles every four to six weeks, Luciano Benetton insists that twice a year is 'perfect'

television advertising in the U.S. for the first time ever. And since September, it has started placing traditional clothing ads in the U.S. and European press—a sign that pressure from Carlo and Gilberto to rein in Toscani may finally be succeeding.

Indeed, sources close to the company take that as proof that Luciano, who oversees Benetton's distribution and communication, is losing power to his more down-to-earth brother, 52-year-old Carlo. Insiders say relations between Luciano and his brothers are strained, with each running his own area independently. Carlo's fief has been manufacturing, while Gilberto oversees Edizione, the family holding company. Although his brothers long argued that Toscani's ads did more harm than good, Luciano allowed him free rein. With results faltering, those strains have made it increasingly difficult for the Benettons to agree on a strategy to stem the slide. "This company is very confuse about direction now," says a banke close to Benetton. "Power has shifte from Luciano, but it's not clear wher it's going."

One place it's not going is to outsi ers: Observers believe the growing di putes led to the resignation of managi director Palmeri. A former banker cre ited with strengthening Benetton's pr fessional management, Palmeri quit aft only two years on the job, raising fea among investors that the family-ru company can't keep independent exec tives. Neither he nor the Benetto would comment on his departure.

SPORTS HOARD. Investors also appe worried about the family's moves to d versify beyond its core 71% holding Benetton stock. In the late 1980s, elde brother Gilberto moved Edizione in sports equipment and sportswear. Firs he bought Prince tennis rackets, th trendy in-line skate maker Rollerblad Nordica ski boots, and Kastle skis. A told, Edizione has spent roughly $2 million building Benetton Sportsyste which hit sales of $650 million in 199

The most audacious diversificati came early this year. The Benetto teamed up with the Del Vecchios, a other leading Veneto industrial family, buy a majority stake in the GS-Aut grill supermarket and roadside resta rant group. Several weeks later, t two families picked up Euromercato, major Italian superstore chain. Togeth the deals topped $1 billion, of which t Benetton family put up about half. A though the moves put them far afield the clothing business, Gilberto argu that it's a natural diversification. "W know markets, and we know distrib tion," he says.

But if broadening makes sense for t Benettons' private interests, the mov also mean that clothing represents ever smaller piece of the family's ho ings. Investors have taken that as a si that the Benettons are losing confider in the apparel market. "The implication that they're facing slow growth in th core business," says Goldman Sac Wills. Analysts add that 1996 could another year of little or no growth.

Luciano Benetton points confiden to improved results in Britain a growth in emerging markets such Latin America and Asia. With three the four siblings still working full ti at the clothing company, he denies t family is losing interest. "I've spent n life in this company," he says. "But I a mit, it's a very unusual company." F would argue with that.

By John Rossant in Ponzano Ven

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PACs CROSS THE STREET

Corporate America is shifting its big bucks to the GOP, leaving the Democrats in a cold sweat

Representative Sam M. Gibbons (D-Fla.) was one of the lucky survivors of last November's Republican hurricane. The veteran legislator held off a spirited challenge from Republican Mark Sharpe to win a 17th term, thanks in large measure to cash from Corporate America. Companies and trade associations, expecting Gibbons to return as chairman of the tax-writing House Ways & Means Committee, ponied up 56% of the $1.2 million raised by his campaign. But now that they're in the minority, Gibbons and many other Democratic incumbents may be ill-prepared to withstand another GOP storm in 1996. "The last election has struck fear into the hearts of a lot of people," admits one Democratic aide.

Indeed, finding themselves out of power, congressional Democrats are in a cold sweat over financing their next campaign: Corporate money, a critical source of Democratic funding for two decades, is a lot harder to come by. It's a problem that could doom the party's comeback chances in 1996: A BUSINESS WEEK analysis of campaign contributions by the top 20 corporate political action committees (PACs) during the 1993-94 election cycle shows Big Business became more inclined to back GOP open-seat candidates and challengers (chart).

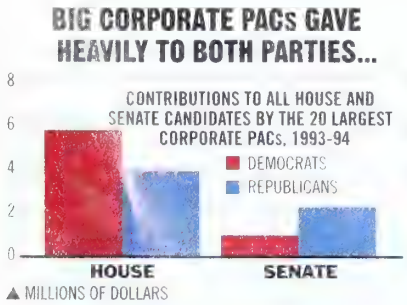
With Republicans firmly in control of both houses of Congress, Democratic coffers will only get emptier. PAC gifts to Democratic incumbents could be down by as much as 40% this year, some party money mavens and congressional sources estimate. "All the business money is going to dry up," frets one major Democratic fundraiser. Even Representative Martin Frost (D-Tex.), chairman of the Democratic Congressional Campaign Committee, concedes that "the Republicans will benefit."

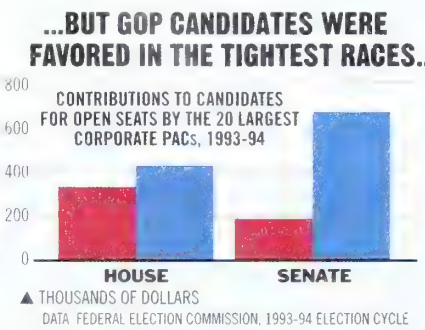
The GOP already has, according to business lobbyists. With the spring fund-raising season just under way, Republican lawmakers are holding at least half a dozen breakfasts or lunches a day at the swank Capitol Hill Club, and corporate reps are jamming the receptions with $500 and $1,000 checks in hand. Congressional Republicans often marvel at the size of the turnout and ask snide questions about where their newfound donors were in the past. The answer: "We look to where the power is," explains Robert D. Brown, vice-president for government affairs at AT&T. Although 59% of AT&T's $1.3 million in election funds went to Democrats in 1993-94, the ratio has flipped in 1995, with 66% of $92,500 going to the GOP in January and February.

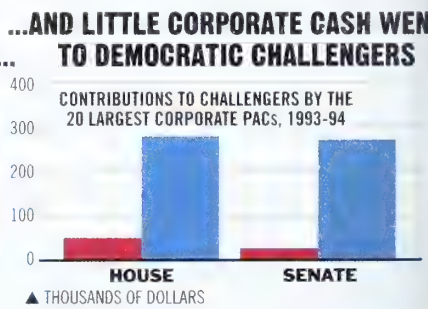
For many business PACs, the pro-GOP shift began before Election Day. Even though little more than half the $13 m lion that the 20 leading business PA contributed in '94 went to Democra $1.6 million in corporate money w pumped to GOP open-seat candidates a challengers, a level not seen since t early 1980s. These donations—comi late in the campaign—helped Repub cans win 41 closely contested Hou seats. After the Nov. 8 election, the r Republican revolution began: GOP Hou members received $170,000 from t top 20 PACs, compared with the Den crats' meager $22,000. "When busine realized the revolution was real, peo woke up," says Steven F. Stockmey executive vice-president of the Natio Association of Business Political Acti Committees.

The long-term implications are frig-

IN A FIX IN '96? *Seventeen-term Democrat Gibbo*







DATA: FEDERAL ELECTION COMMISSION, 1993-94 ELECTION CYCLE

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Government

ening for the Democrats. In the 1970 the Democrat-controlled Congress crea ed PACs as a life-support system for i cumbents, who lured big bucks fro unions, corporations, trade groups, a activist groups to stay in power. A House Democrats became addicted: of Nov. 28, 1994, they depended on PA for 46% of their campaign funds, co pared with the GOP's 26%. House R publicans, in turn, tapped wealthy co stituents for 60% of their mone generated by individual contributions long a weak spot for Democrats.

Now, the Democrats' traditional mo ey machine is being turned agair them. Organized-labor PACs—which ga 95% of their $95 million to Democrats the 1992 election—won't abandon t party. But labor accounts for only o fourth of all PAC money, and with uni membership eroding, that figure is expected to surge. Even worse, lab funds won't be able to offset the loss business dollars—which accounted half of the $395 million in PAC givi in the 1992 election. "Democrats mad horrible mistake not pushing throu campaign finance reform when they h the chance," says Thomas E. Mann, rector of governmental studies at t Brookings Institution.

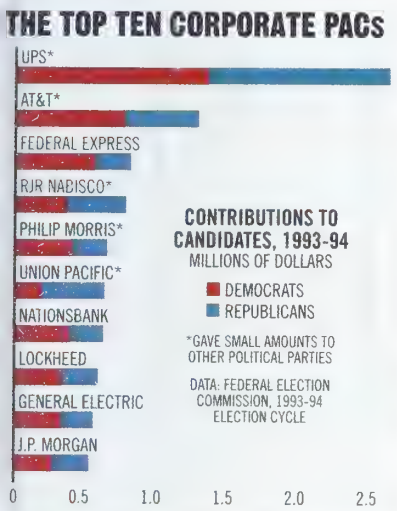
SOUL MATES. Many corporate lead and PAC managers admit a shift tow the GOP is long overdue, since Repub cans and business often share politi goals—such as cutting governme spending and slashing regulations. So companies, such as Union Pacific Co have always given the bulk of their g to the GOP (chart). In a Mar. 10 letter employees, Union Pacific CEO Dr Lewis, who was Transportation Sec tary in the Reagan Administration, s "We need to rebuild our coffers to ke up the momentum." But politically s sitive companies such as United Par Service, AT&T, and Lockheed Martin shifting money to the new major Lockheed Corp., which recently merg with Martin Marietta Corp., gave m than half of its PAC money to Der crats, who controlled spending vital the defense contractor. "That's going change," says Stephen E. Chauc Lockheed Martin's vice-president state-local affairs and PACs. "Whoev in the majority is going to get the m money."

For anybody in Corporate Ame who hasn't gotten the message, Ho Speaker Newt Gingrich (R-Ga.) and lieutenants aren't shy about undersc ing the point. Representative L. W liam Paxon (R-N.Y.), a zealous fu raiser who's chairman of the Natio

epublican Congressional Committee, as distributed a list of contributions om the top 400 PACs to fellow law-akers as a cheat-sheet to screen for OP loyalty before granting any favors. nd Republicans aren't reluctant to unish past Democratic givers. "Every ay, we have groups trotting up to the apitol, plying their wares, and they're nding stony silence," says Paxon.

To help realign allegiances, many EOs have hired GOP-connected lobby-ts to smooth relations, in part by at-nding a stream of GOP fund-raisers. OP lawmakers "think we're whores," lmits one lobbyist, trying to pave the ay for his company. "We've got to con-nce them we're out to change the way e do business."

And companies are using cash to do st that—big time. The National Re-



blican Senatorial Committee has sed $6.5 million since January, mostly m business, and is now $3 million in e black. By contrast, the Democratic natorial Campaign Committee has re-ived just $1.7 million this year and nains $1.5 million in the hole.

For the most powerful GOP barons, id-raising has become almost effort-s. After attending a breakfast of cof-e and rolls for bankers in February, nate Banking Committee Chairman fonse M. D'Amato (R-N. Y.) collected 5,000 apiece from 11 leading financial stitutions, including J. P. Morgan, ase Manhattan, NationsBank, and tional Bank of Detroit. But even Re-blican freshmen who received little siness support before the election are tching checks roll in. Representative eve Stockman (R-Tex.), for instance, sed about $30,000 on Mar. 23 at a ktail reception attended almost exclu-ely by business reps.

Democratic strategists are trying to wnplay the loss of corporate support. me Democrats, mimicking GOP tac-

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tics, are putting new emphasis on solic iting individual contributions, particu larly from rich liberals in Hollywood Others profess long-shot hopes that left leaning PACs, such as those representing environmentalists and women's groups will cough up more money to comba the GOP revolution.

ADAPTABLE. Moreover, business prob ably won't abandon the Democrats alto gether. Former California Representa tive Tony Coelho, who forged key link between Democrats and corporate PAC when he served as head of the Demo cratic Congressional Campaign Commit tee, predicts that businesses will kee giving to "protect their investment" i the event that Democrats recapture th House or Senate. "It's just not goo business" to cut off donations, Coelh says. "PACs need to cultivate the rela tionships they've developed."

But that may be true only for th most powerful Democrats, who sti wield clout even in the minority, such a Representative John D. Dingell (D Mich.). The former Commerce Commi

GOP lawmakers check a list of contributors for party loyalty before granting any favors

tee chairman, who in '94 raised on third of his $967,000 campaign fun from business PACs, hosted a Mar fund-raiser that aides claim was ve well attended. Even so, other Dem cratic sources whisper that the eve fell well below expectations.

Talk like that has Capitol Hill Dem crats wringing their hands over corp rate funding. Even veterans such Gibbons know they must adapt to su vive. "My fund-raising changes with t times," says the Florida congressma "I'll raise the money somehow." Dem cratic strategists fear, however, that t Republicans will use strong-arm tact to dry up Gibbons' business PAC su port and send him to defeat in '96. B Corporate America doesn't seem to r quire much coaxing. If business kee putting its money where its politics a Gibbons will be one of many enda gered Democrats in '96, and the G will be well on its way to long-te majority status.

By Mary Beth Regan and Steph H. Wildstrom, with Richard S. D ham, in Washington

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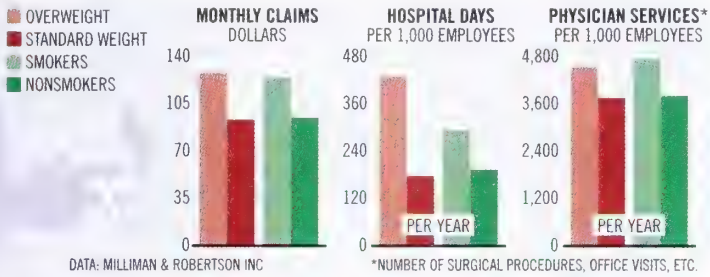
DITED BY EMILY SMITH

RATING WORKERS' UNHEALTHY HABITS

THESE DAYS, EMPLOYERS want to know which of their employees' risky health habits cost them the most. To help Chrysler Corp. find out, Milliman & Robertson Inc., a health-care consulting firm, and StayWell Health Management Systems in St. Paul, which operates wellness programs, analyzed three years of the auto maker's health claims to measure the costs of 10 different health behaviors—everything from alcohol consumption and stress to cholesterol and mental health. The results? Smoking and being overweight were the two most expensive risks (charts). Annual claim costs for smokers were 31% higher than nonsmokers. Overweight employees cost even more—their claims were 37% higher than their slimmer colleagues, while the number of days they spent in the hospital was 143% greater.

CHRYSLER'S COSTLIEST HEALTH RISKS

Smokers and overweight employees cost the auto maker more than any other health risks



DATA: MILLIMAN & ROBERTSON INC

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CHIP DESIGN ENTERS THE THIRD DIMENSION

TO ANALYZE A CHIP DESIGN with millions of transistors, today's best computer tools model the transistors only in two dimensions. Depth is ignored because the main action takes place at the surface of thin films on the silicon. But this will soon change. The width of the transistors is fast approaching the thickness of the surface films. This means the activity of electrons at the sides of a transistor will have to be modeled, too.

Simulating the 3D movements of electrons in millions of transistors requires a custom-built supercomputer costing almost $15 million. But in March, Robert W. Dutton, chief scientist at Stanford University's Center for Integrated Systems, reported that a research team has developed an algorithm that outperforms that custom computer more than fivefold—using versions of IBM's new POWERparallel SP-2 supercomputer costing half as much.

One setup can do 9.5 billion math operations a second. At such speeds, simulations in 3D won't take much longer than in 2D. And the improved accuracy of 3D models will better uncover problems during design, which could slash development time by months.

IW WATER NKS 'TICAL FIBERS

ICAL FIBERS ARE BUILT TO t about 40 years, until ne hypothetical technology nes along to replace them. how long will they really nd up? No one knows for e. Any accelerated-wear t runs the risk of failing accurately duplicate the esses that a fiber would lergo over four decades. it's a serious knowledge : Companies such as Corning Inc. and AT&T don't know whether it's necessary for them to spend extra money to lengthen fiber life with the special hermetic carbon coatings they have developed.

That's where Minoru Tomozawa comes in. The professor of materials engineering at Rensselaer Polytechnic Institute in Troy, N. Y., is trying to determine what makes fibers deteriorate. One finding: Water is deadly. It can slowly seep right through the plastic coatings and, like an acid, dissolve the glass fibers.

Water will penetrate into the fibers most easily where fibers are bent. Tomozawa also showed that water does not just deepen existing cracks but can also initiate cracks even in perfectly formed fibers.

CARTILAGE TRANSFUSION FOR BAD KNEES

NEE INJURIES ARE A otorious problem for athtes. About 650,000 people year undergo arthroscopic irgery to repair damaged artilage in their knees. Unortunately, because cartilge tissue doesn't regenere in the body, the benefit ten lasts just a few years.

Now, researchers at Genzyme Tissue Repair Inc. in Cambridge, Mass., have a promising new treatment for knee damage: a process to grow a patient's own cartilage cells that can be reimplanted in a bad knee. In a two-part surgical procedure, cartilage cells are removed through a biopsy, cultured at Genzyme's lab, then injected back into the damaged portion of the knee through open-knee surgery. The cells are held in place by the periosteum—the membrane that covers bone surface. If the procedure works, the cells integrate into the surrounding tissue and mature in normal cartilage, restoring frictionless movement to the knee.

The operation has been successful in Sweden, where 14 of 16 patients who underwent the process reported "good to excellent" results. On Mar. 24, New England Patriots and Boston Bruins team doctor Bertram Zarins will perform the first procedure in the U. S. on an unnamed patient at Massachusetts General Hospital. By the end of the year, Genzyme hopes the operation will be available in six U. S. cities. The price: $10,000 for the cell culture, plus hospital costs of up to $20,000.

STANDARDS

COWBOYS VS. COMMITTEES

Techies say let the market set standards. Lately, it does

The videotape that you bought in Paris, France, won't play on your VCR in Paris, Tex. The novel you started on your old Apple IIc is stranded on disks that will never be read again. And on your new computer, some deep-buried incompatibility has locked the CD-ROM drive in a death struggle with Windows. Life would be a lot easier if these things were built to work together. How to close the "interoperability" gap has become one of the toughest and most controversial questions of the high-tech era. Everyone agrees that standards can save time and money. The billion-dollar question is: How should standards be determined?

"WHAT DO YOU MEAN IT SORT OF IS AND ISN'T COMPATIBLE?"

Good-government tradition says technology conflicts should be smoothed over by due process, with formal deliberations of committees and subcommittees of engineers. "Standard-setting is a political process—what you want is a level playing field for all the participants," says Sergio Mazza, president of the American National Standards Institute, which coordinates the U.S. voluntary standards system. Embracing that philosophy last year, the Senate developed legislation that would have allowed the Federal Communications Commission to set telecom standards if the industry couldn't agree.

But a growing number of impatient techies say that formal standard-setting efforts under the auspices of groups lik ANSI or the FCC simply can't keep pac with the rapid development of technol gy. They prefer a Wild West free-ma ket approach to sort things out, even that means a few big or well-place companies are able to cobble together system on their own and dictate term to the rest of the industry. Their voice are beginning to be heard: The teleco bill in this year's Republican-controlle Senate drops all mention of involvir the FCC in promoting or setting ne standards. That's fine with Richard Friedland, president of Ge eral Instrument Cor which single-handedly co trols the cable-televisi scrambling standard: " most instances, standard-se ting slows down the mark rather than helps it."

There's no question th formal standards bodi have made huge contrib tions in everything fro batteries and floppy disks fax machines and pho calls. Even many liberta ians concede that some sta dards—in telephone servic perhaps—require consens But in general, the free-ma keteers favor chuckin *Robert's Rules of Order*— guing that a make-do sta dard now is better than formal one that emerg years from now, encrust with dozens of extraneo specifications. Their mod is the Internet software p tocol, which was invented by the I fense Dept. in the 1970s and has gro steadily in sophistication and usefuln along with the Internet itself—direct only by a small corps of techies cal the Internet Engineering Task Forc

As an example of committee-ism, c ics point to the Electronic Industr

Standards Follies

In the Middle Ages, a "standard" was a banner marking a rallying point i a battle. Come to think of it, very little has changed. To wit:

PERSONAL COMPUTERS

Microsoft has gained enormous power by controlling personal-computer standards. Rivals, crying monopoly, want a key standard called the "application programming interface" placed under industrywide control. Microsoft refuses, saying it's playing tough but fair.

HIGH-DEFINITION TELEVISION

Hoping to thwart a Japanese effort to sell high-definition TVs in the U.S., American industry devised an incompatible and better U.S. version. American digital HDTV isn't available yet, but broadcasters are already cool to it. Still, the gambit did hamper Japan.

CELLULAR PHONES

U.S. cellular operato 1990 selected a digit standard for airwave mission. But several have since d ed to a rival format. The splinteri slowed the rollout of digital cellu the U.S.—and allowed a Europea dard to catch on around the worl

ssn.'s 10-year effort to create a stan-
rd for communication between devic-
in a home such as lights and appli-
ces. The CEBus specification fills two
nders and is supported by AT&T Corp.
d others. But it has yet to make an
pact on the market. Meanwhile, mil-
ns of dollars' worth of products have
en sold using a proprietary standard,
NWORKS, that was quickly developed
Echelon Corp. in cooperation with
shiba. Michael Coffey, executive di-
ctor of the Indianapolis-based CEBus
dustry Council, says his group's pro-
ss had to be slow to be democratic:
ny company that had any interest in
is whatsoever was invited to partici-
te. If you showed up at a meeting,
u could raise your hand and vote."

LLULAR SNAFU. Don't count on Mi-
soft to ask for a show of hands from
npetitors on its next major operating-
stem decision. Rivals claim Microsoft
s illegally used its position in operat-
systems to dominate other software.
deed, Scott McNealy of Sun Micro-
stems Inc. wants a key Microsoft
ndard—the interface that program-
rs use to write software for Win-
ws—placed under industry control.
t Microsoft's defenders say customers
ve only benefited from its market-
bbing ways. Gartner Group Inc. ana-
t Bernd Harzog wrote last year that
industrywide group "would focus
re on balancing the competing inter-
s of the vendors involved than it
uld on competing for customers' dol-
s in the open marketplace."

Europeans and Japanese view such
ridled competition with horror.
y're particularly shocked by the sna-
ver digital cellular. The U. S. indus-
formally united behind one stan-
d, called time division multiple access
MA). But almost before the ink dried,
eral major players defected to a
ndard called code division multiple
ess (CDMA). Partly as a result, the
fied European standard, GSM, is
eping the globe. Japanese or Euro-
ns may split over consumer elec-
nics formats such as VCRs or video-

NETWORKING

Standard-setting bodies have devoted years of effort to an elegant, seven-layer frame-computer networking called stems Interconnection. But een blindsided by companies sell-net-style networking, which grew ad hoc manner.

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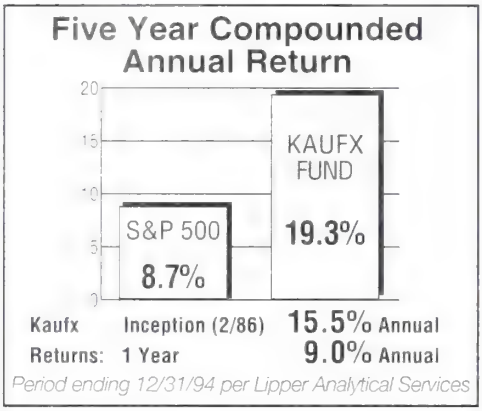

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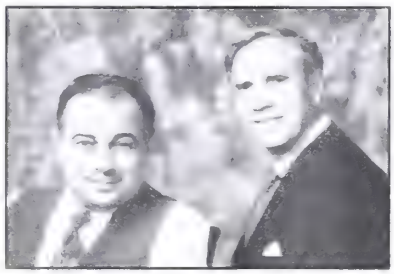

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disks, but rarely over core communic tions technology. "The U.S. has had th cowboy attitude that does it a great di service," says Frenchman Alexandre Ba kanski, chief operating officer at C-Cub Microsystems Inc. in Milpitas, Calif.

Yet even the Europeans acknow edge that American-style flexibility h advantages. Jozef Cornu, acting chief French telecom-gear giant Alcatel, sa that integrated services digital netwo (ISDN), the international standard f digital telecommunications, is too d tailed: "If you specify interfaces in rigid way, you don't leave room f innovation."

PACE PUSHER. The future of standar setting may belong to fast movers su as LSI Logic Corp., which designs mul function chips for such things as TV se top boxes and video-game machines. S ting at the nexus of many componen and companies, LSI can push the pace decisions. "The shakeout among co peting companies will come earlier on the process, and the strong will g stronger," says LSI Executive Vice-Pre ident Brian L. Halla.

In coming years, cheap computi power should make it easy to achie compatibility with software, lessenin the need for companies to agree befo hand on every jot and tittle of a sta dard. General Motors Corp.'s Hugh Electronics figured that out when built its digital satellite-TV system wh the compression technology, MPEG 2, w still being debated. The resulting compatibility was easy to fix by p ting two kinds of software into decode one for the official standard and one the Hughes version. Why the rush? " simple: We had a business to star says L. William Butterworth, execut vice-president for Hughes unit Direc

Jonathan Swift foreshadowed st dards wars in *Gulliver's Travels* wh he imagined an interminable fight tween the Big-Endians and Little-E ians—kingdoms whose only differe is in where to crack open a hard-boi egg. Today, Macintoshes use a "big e ian" addressing scheme, while IBM-co patible PCs are "little endian." The g news is that technology is beginning close the great rift in desktop comp ing. The new Apple/IBM/Motorola P erPC chip is, in engineering lingo, "bi dian." Such patches are likely to bec increasingly common—producing c patibility without committees. T bodes well for the cowboy approa The message: Innovate now; clean afterward.

By Peter Coy, with Neil Gross New York, with bureau reports

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EXPORTING JAPANESE CULTURE
A demonstration of the tea ceremony at a Westin hotel in Singapore

JAPAN'S NEW

As growth in the West flags, Tokyo is hitching its future to Asia–and decrying past subservience to the U.S. The world will feel the impact

In the close-knit world of Indonesian business, Japa Sanyo Electric Co. has long hoped to establish itself as insider. Its 25-year effort reached a high point in Febru with the opening of a new refrigerator plant in W Java. The factory will employ 170 workers and will put o gether 200,000 fridges every year—with more than 50% l content.

As the yen reaches record levels against the U.S. do Sanyo needs friends in places like Indonesia because Asian a tions are becoming not only important manufacturing cen rs but also hot markets. "The growing economic power is in is area, not the U.S. or Europe," says Koji Miyagawa, pr si

How Japan Is Changing Course

- More ties with Asia lead to greater two-way flows of languages, entertainment, and other forms of culture
- "Reverse imports" from Asian-based Japanese subsidiaries leave Japan more impenetrable to Western companies
- Japanese exports to the U.S. from Asian manufacturing bases obscure size of bilateral trade imbalance
- Growing Asian clout makes Tokyo less vulnerable to Washington's trade pressure
- Increasing influence in Asia tempts Japan to pursue its own geopolitical goals in the region
- Sourcing of cheap components from Asia gives Japan's exports new competitive edge
- An increasing flow of capital to Asia means that less money from Japan goes to the U.S.
- The spread of Japan's regulatory structures makes other Asian markets less open

DATA: BUSINESS WEEK

EXPORTING WORK METHODS
The Japanese style has sparked some resentment

DENTITY

t-director of Sanyo Industries Indonesia. "And the culture e is closer to Japan's."

'eople like Miyagawa are part of an important shift in the / many Japanese are viewing the world. After years of de- dence on the U. S. both for its markets and military pro- ion, Japan is turning to Asia and decrying subservience to shington. From South Korea to China to Southeast Asia, ans now buy more Japanese exports than the U. S. does, oming the largest source of Japan's trade surplus. And anese manufacturers are plowing the cash earned from ex- ts into new Asian manufacturing sites. Indeed, the super- ı both nudges corporate Japan into Asia and makes such investment alluringly cheap (charts, page 110).

In short, Japan is hitching its future to Asia as growth in the West—and in its own economy—flags. The economic shift has been quietly under way for years but now seems to be passing crucial cultural and political thresholds. Japanese politicians, for example, have picked up on the drift, attempting to heal war wounds and forge stronger political alliances with Asia. The most extreme among them call for an alliance to oppose a

Cover Story

SOURCING PARTS IN SOUTH-EAST ASIA

Items such as Thai ball bearings roll out from Japan's supply network in the dollar bloc of Asia

U. S. government that pressures Asians on everything from trade policy to human rights.

One such leader is maverick Liberal-Democratic Party figure Shintaro Ishihara, co-author of the late-1980s anti-American screed, *The Japan That Can Say No.* Last year, Ishihara followed up with *The Asia That Can Say No,* written with Malaysian Prime Minister Mahathir Mohamad—one of America's fiercest critics in the region.

The two urge Japan to turn its back on the U. S. and return to its Asian roots. After 50 years of "unnatural" membership in the Western community, Ishihara says, Japan should cleave to the East. "This is a nation of Asian people with Asian blood," he says. "It seems natural that we recognize that we exist first for Asia."

SOURCE OF JITTERS. Ishihara's call for a new Japanese identity is being echoed by other nationalists. For instance, Ambassador to Hanoi Kazuo Ogura has penned a widely noted piece calling for Japan and its neighbors to promote such "Asian values" as discipline, diligence, and the primacy of the group over the individual. Some are even calling for the resurrection of the Greater East Asia Co-Prosperity Sphere, the euphemism given by Japan's wartime leaders to their empire that extended from Manchuria to Indonesia.

Such talk causes jitters among many Asians. But most governments in the region appear to have decided that they are now powerful enough to engage Japan on more equal terms than before. Their goal is to extract more Japanese investment and technology with hopes of furthering their own economic power. "People know Japan is an important source of money," says Chen Peng-Jen, professor of political science at Soochow University in Taiwan. Adds Hadi Soesastro, chief economist at the Center for Strategic & International Studies in Jakarta: "All of us are trying to maximize what we can get from Japan."

Japan's swing, dubbed "re-Asianization" by Yotaro Kobayashi, CEO of Fuji Xerox Co., has picked up a historically loaded slogan: "*Datsu-o, nyu-ah,*" or "Leave the West, enter Asia." This expression resonates because when Japan ended centuries of isolation in the 1850s, setting the stage for the modernization of the Meiji era, the nation adopted a reverse buzzword: "*Datsu-ah, ny-o,*" or "Leave Asia, enter the West."

Could Japan's current shift become as momentous? Some fret that it might. "I fear there's widespread support for Ishihara's viewpoint," says Michael Mochizuki, co-director of the Center for Asia-Pacific Policy at Rand Corp. in California.

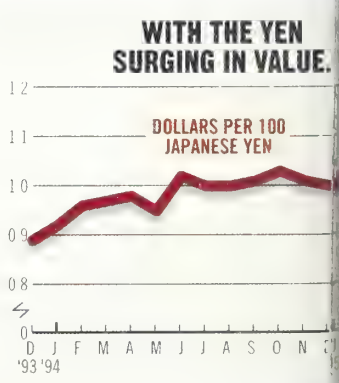
"Japan wants more freedom from the United States

The potential implications for the West are huge. Fe people believe that Japan could completely divorce its from the U. S. or Europe, walking away from the large ec nomic stakes it has amassed. And Tokyo has not gone as f as Washington in formalizing its relations with neighbori economies. But it is also clear that Japan needs new sourc of growth, particularly to pay the mounting bills for its agi population. Getting that growth means Japan's emphasis a new trade, investment, financial, and technological mov will be in Asia. "Japanese are getting more cautious abo putting money into the U. S." says Makoto Kuroda, until cently a senior managing director at Mitsubishi Corp. "Asia more profitable and dynamic."

Although Japan's push will spur economic growth, it a seems certain to raise the level of business competition in region that Americans also are targeting. The rapidly char ing competitive landscape is not a challenge so much to M torola, Intel, or General Electric as it is to smaller or mediu size companies just now beginning to tackle those marke Deepening economic ties with Asia could also make Japane companies more competitive and their government more sistant to Western trade demands.

FROZEN OUT? In geopolitical terms, Japan's new identity greatly complicate American diplomacy. Washington's atten to extract human rights pledges from China could be und cut if Japan sends differing signals to Beijing. The Asia-Pa ic Economic Cooperation forum, which is aimed at mak

Japan's Widening Web of Asia Ties



DATA: BLOOMBERG FINANCIAL MARKETS, DEUTSCHE BANK CAPITAL MARKETS (ASIA), OECD

JYING MORE
ROM ASIA
iwan computers
sale in Tokyo: By
engthening Asia,
Japan creating
werful new
npetitors?

sure the U.S. is not kept out of an all-Asian trade bloc, also could be undermined, and efforts to isolate countries such as Burma frustrated, because of a growing sense that Japan's interests may not always converge with America's. A senior official at the Foreign Ministry says leading members of the government are complaining that Japan is too deferential to the U.S. when it comes to such regional issues. "This is a new game," says the official.

Still, there are risks in this new era. Asian nations don't always find that Japan's embrace is entirely beneficent. Countries such as Malaysia and Thailand have enjoyed large sums of new Japanese investment. But they also have developed huge, structural trade deficits with Japan. Their yen-denominated loans from Japanese institutions also have soared in local currency value—and Tokyo shows few signs of wanting to renegotiate onerous loans. And East Asian nations that were savaged by Japanese troops during World War II worry that an increasingly independent Japan could start to rearm.

It's not just wartime atrocities that present problems for the Japanese. Having long looked down on the rest of Asia, many Japanese are finding that they are out of touch with their neighbors' cultures. · instance, while Sanyo has been welcomed by Indonesian iticians, its Japanese managers sparked an uproar last r among its workers. They went out on strike after San- refused to allow 33 of its female assembly-line workers to ar Muslim traditional dress. The company cited safety sons for its stance. After four months, Sanyo agreed to a ipromise in which the women could wear uniforms that ered their arms and legs, as Muslim mores dictate. "We're ning that religion has an equal priority to procedure," con- es Sanyo's Miyagawa.

Moreover, some Japanese worry that by flocking offshore, iufacturers are "hollowing out" their home economy. But ike U.S. multinationals that started moving production rseas years ago, often to independent suppliers, Japa- e companies are maintaining total control and keeping rication of all strategic products at home. What's more, Japan's working-age population is peaking this year, meaning Japan's already low unemployment rate isn't expected to worsen much by any hollowing out.

Other Japanese wonder whether by promoting Asian strength, Japan may be creating more competitors—economic, political, and military. Economically, these competitors could well use the Japanese model against the Japanese, as South Korea already has started to do.

Such potential hazards haven't deterred giants like Mitsubishi, which is vigorously establishing regionally integrated networks of alliances and business deals. In China, Mitsubishi Corp. has established alliances with China Natural Gas & Petroleum Corp. and Baoshan Iron & Steel Complex Corp. to explore ways of doing business together. In the Philippines, the company has developed a successful industrial park and is a partner in a power-generation project. In Vietnam, a joint venture with Mitsubishi Motors, Malaysia's Proton, and local investors will assemble vans. Meanwhile, Mitsubishi Motors Corp. next year plans to export pickup trucks from Vietnam to Japan.

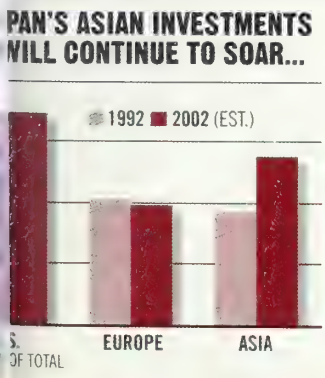
"It seems natural that we recognize that we exist first for Asia."

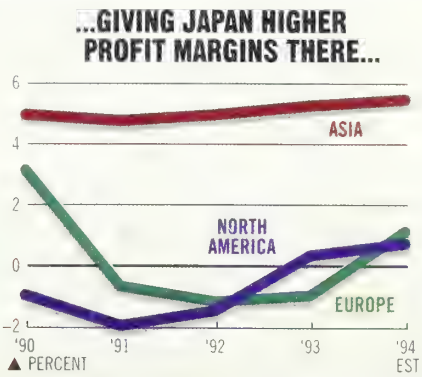
SHINTARO ISHIHARA

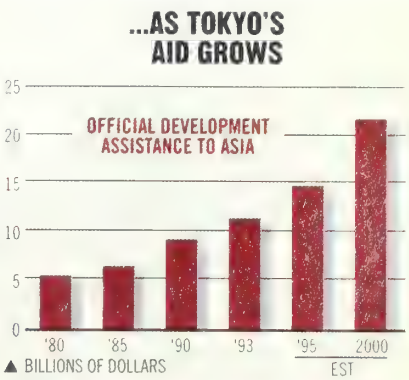
THE BIG STAKEOUT. Other Japanese giants are equally aggressive. Honda Motor Co. has launched three joint ventures in China to make and sell motorcycles. Honda is also developing a new sedan for production in Thailand. Nissan Diesel Motor Co. soon plans to introduce an "Asian truck" for sale in Southeast Asia. Through standardization of parts and local production, it expects to cut costs by 30%. In January, Toyota Motor Corp. said that by 1998 it would expand its Asia parts-making network to include about 100 parts, a sharp boost from the current 12.

The company is already planning to introduce a low-priced "Asian car" in 1997, when it intends to double annual car production in Southeast Asia, to more than 1 million. By the time Detroit's Big Three follow through on recently announced plans to set up operations in Southeast Asia, relationships with part suppliers and distributors may be tied up. "The East Asia auto market could be Japan's," says James Abegglen, a Tokyo-based consultant.

Other Japanese industries are moving fast to stake out Asia as well. Matsushita Electric Industrial Co. has 15 affili-







ates in Malaysia that account for about 4% of the country's exports. In early February, Kawasaki Heavy Industries Ltd. and Nissho Iwai

Corp. signed an agreement with Malaysia's Diversified Resources Berhad to build a $100 million motorbike plant in Malaysia. By 1998, Toshiba Corp. plans to invest $122 million in seven Thai affiliates, making color televisions, air conditioners, computer monitors, and semiconductors. In the Chinese port of Dalian, neon signs for Canon, Hitachi, and NEC abound.

Thailand typifies Asia's open-arms welcome to the Japanese. Over the next three years, the Thais aim to attract $8 billion in new Japanese investment to create 160,000 new jobs. One indication of its seriousness: Bangkok is closing its Hong Kong investment-promotion office and moving it to Osaka.

This all adds up to a much stronger tilt by Japan toward Asia than by the U. S. or Europe. According to an estimate by Deutsche Bank, Japan's cumulative direct investment in East Asia through 1994 totaled $64 billion, against an estimated $26 billion from the U. S. and about $7 billion from Germany. In 1993, East Asia took 36% of Japan's exports, against 17% of America's and less than 10% of Germany's or France's, according to the International Monetary Fund.

CARVING OUT. Individual deals don't rattle Western experts as much as the prospect that Japan's entire model of export-led growth and barriers to imports will be imitated throughout the region. Some Asian governments are welcoming Japanese specialists to advise them on how to design and implement industrial policy. Japan's Ministry of International Trade & Industry has experts visit China regularly to dispense knowhow on industrial policy and economic development. China has already taken at least one lesson from Japan's handbook: It's protecting such strategic industries as autos from foreign competition. "If we've been unsuccessful in dealing with MITI, think what that means for us in dealing with China over the next 50 years," says Mark Foster, a U. S. attorney specializing in cracking Asian markets.

Bolstering Japan's clout in the region is its disbursal of foreign aid. Already the world's largest aid donor, Japan directs much of its money to Asia so as to carve out a sphere of influence. Much of this overseas development assistance is in the form of loans. At the end of 1994, Japan's Overseas Economic Co-operation Fund had $69.6 billion worth of loans outstanding in Asia. That's 78% of the OECF's total portfolio. Indonesia was the biggest recipient, followed by China, the Philippines, India, and Thailand.

Japan's growing influence isn't just economic. More than ever, Asians are embracing Japanese cultural exports. In April, Nihon Hoso Kyokai, Japan's public TV network, plans to expand its programming to Asian broadcasters and cable operators from 105 minutes a day to 12 hours. Asians are con-

THE LURE OF CHINA

In Dalian, location of this Canon factory, neon signs for major Japanese companies abound in the city center

suming more Japanese culture t ever. In Taipei, a line forms nigh outside one of the most popu Japanese restaurants. In H Kong, *Tokyo Love Story*, a popu miniseries dubbed into Canton has generated comic-book spin-

Throughout Asia, youngst bounce to the beat of such Ja nese pop groups as the South All Stars, Hikaru Genji, and Ch & Aska. And regional stars are leasing their own versions of Japanese hits. This growing ceptance of their culture in the region makes Japanese more part of Asia.

In return, Japanese are showing broader interest in et foods, movies, pop music, and books from their neighb More Japanese than ever are studying Asian languages traveling in the region. A new album in Mandarin by Tai nese singer Faye Wang is a big seller. Asian movies suc Chinese director Chen Kaige's *Farewell My Concubine* appealing to a mass audience. "Asian movies take us bac years to Japan's period of modernization," says Takahiro rao, chief editor of *Crea*, a popular women's magazine. "T were the good old days. Now we feel that Asia is like t Late last year, *Crea* published a package of stories on A food, movies, literature, and travel.

MINOR IRRITANTS. To be sure, all Asians aren't buying Japan's re-Asianization drive. Even some of Japan's e while allies criticize its behavior in the region. Ishihara's author, Prime Minister Mahathir, has expressed ire at Ja refusal to renegotiate loans taken out before the yen's 1 rise against the Malaysian ringgit. He says Malaysia w take any more Japanese loans unless they're denominate a currency other than yen. Mahathir is also upset Japan's $4.7 billion trade surplus with Malaysia and its res tive trade practices. Chinese, Taiwanese, and Korean cials similarly have decried Japanese trade barriers. M Asians complain about the failure of Japanese companie

Many Asians complain that Japanese companies don't promote local managers or transfer technology

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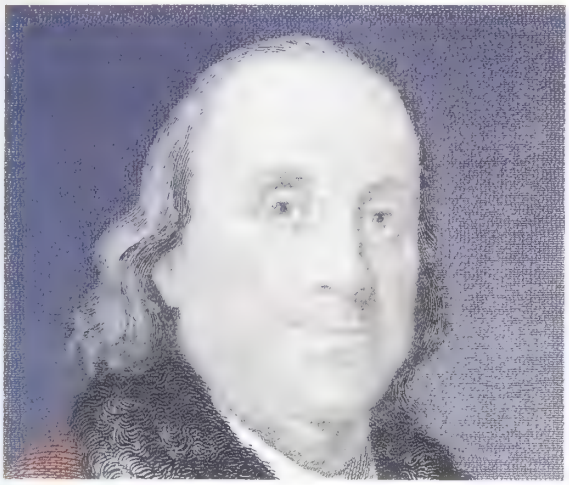

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promote local managers to top positions or to transfer substantial technology.

So far, none of those irritants appears so great that it will halt Japan's entente with Asia. To manage these "frictions," much as they have previously managed disputes with the U.S., Japanese are making a show of greater generosity. MITI, for example, recently offered to help develop parts industries in Asian countries by dispatching retired manufacturing engineers and paying three-fourths of their salaries.

To respond to Asian complaints that the Japanese have lagged U.S. or European competitors in transferring technology, the Japanese are making the first moves in that direction. The Mitsubishi group has opened a research center in China to share technology on a variety of fronts, including environmental cleanup. Pioneer Electronic Corp. in January agreed to supply scrambling technology for cable-TV systems to Tongkook General Electronics Co. of South Korea. And NEC Corp. is sharing chip designs with Taiwan Semiconductor Mfg. Co. "The Japanese realize there is a problem with the pace of technology transfer, and they are ready to accommodate this," says Stephen Leong, executive director of the Center for Japan Studies in Kuala Lumpur.

Many Asians shrewdly argue that a heightened Japanese presence will give them a new tool to pry concessions out of U.S. multinationals. "Our government sees that it can use Japan as a balance to U.S. investment," says legal scholar Li Shuguang at the Chinese University of Political Science & Law in Beijing. "China is happy to see a contest between Japan and the U.S. for market share. It creates a strategic triangle that only gives China more choices."

Indeed, Japan's new Asian identity means that U.S.-Japanese rivalries are becoming more complex than ever. Instead of being confined to two-way issues, they will be visible throughout the region. "U.S.-Japan competition will get more intense on setting the rules and agendas in multilateral economic organizations," predicts Takashi Inoguchi, a political science professor at Tokyo University.

ON THE FAST TRACK. One key testing point will come this fall when Osaka hosts the next top-level meeting of the APEC trade group. There are already signs that it will seek to slow down U.S. proposals for market-opening measures throughout the region. And lobbying from Japanese business interests is giving Tokyo second thoughts about refusing to join a Mahathir-sponsored, Asians-only trade bloc that the U.S. opposes.

Indeed, the days of America's diplomatic ascendancy over Japan may be waning. As the senior Foreign Ministry official reveals, politicians are cranking up pressure for a more Asian tilt in Japan's diplomacy. Growing numbers of top Foreign Ministry jobs are going to Asia specialists, and more influential Japanese diplomats than before are getting ambassadorial assignments in Asia. For the first time, posts related to the region are just as hot among Foreign Ministry fast-trackers as those dealing with the U.S., says an official charged with training young diplomats.

Strategic policy could change with a shift in diplomatic priorities. When Joseph S. Nye Jr., the new U.S. Assistant Defense Secretary for international security, visited Japan last fall, he was disturbed to find signs that Japan was drifting from close cooperation with Washington and shifting its security focus to East Asia. Last year, for example, Japan and South Korea agreed to launch an exchange of naval visits. Nye proposed a series of systematic bilateral contacts, which have started, to underscore the need for maintaining tight d fense links.

Chances that Japan will abandon the West to marry As appear remote, though. In the post-cold-war era, Japan but one of many countries, including the U.S., that's reeva uating its role and identity. Some see little reason for wo ry in a Japanese tilt toward Asia. "We can't be part Asia as perfectly as some Asianists feel," says Tokyo Un versity's Inoguchi. "We need North America, Latin Ame ca, and Western Europe." Re-Asianization, he says, is "piecemeal adjustment."

Indeed, as China continues on its path of explosive econo ic growth, Tokyo may feel it requires the weight of Washin ton to help check Beijing. "Japan needs to keep hooked to t United States to prevent China's becoming the regional heg mon," says Nobuo Noda, professor of law at Kyoto Universi

But a redefinition of U.S.-Japan relations does appear to

ABSORBING ASIAN CULTURE
More Japanese, such as these executives learning Vietnamese, are studying their neighbors' languages

in the works. This will require ca ful management by both sides. " pan is preparing a lot of opti because it doesn't know where world is going," says Ivan Hall specialist in Japanese intellect history based in Tokyo. "One tion is to create its own defens sphere of influence that is econo cally grounded but with politi and cultural ties." That could take 10 to 20 years, he obser

By then, China may be an even greater economic a military threat. A re-Asianized Japan could choose to al with Beijing and its large markets. Or Tokyo may choose stick with its longtime patron across the Pacific, hoping t a renewed alliance with Washington would restrain rapidly panding Chinese power. A third, and perhaps the most lik scenario would be for Japan to play a middle role, serving a buffer or moderator between clashing Western and As interests.

In any event, this is a crucial moment of self-redefinition Japan. If sustained, the shift could become a profound cha in Japanese identity, similar to when Commodore Matth Perry forced Japan's doors open and sparked the Meiji-era fort to "catch up and surpass the West." Now that the W is no longer offering what Japan needs most—the prospec long-term economic growth—the tilt toward Asia is on. better or worse, the world will feel the effects.

By Robert Neff in Tokyo, with Michael Shari in Jaka Joyce Barnathan in Hong Kong, Margaret Dawson in Tai and Edith Updike in New York

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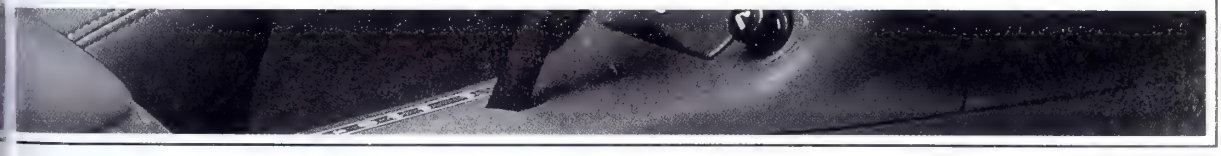

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WHAT THE STRONG YEN IS BREEDING: JAPANESE MULTINATIONALS

Manufacturers are using it to set up more operations in Asia, Europe, and North America

As the mighty yen shatters one plateau after another, Japanese chieftains howl, Tokyo share prices swoon, and cheap-dollar mavens in Washington smugly predict that Japan's colossal trade surplus will finally be cut down to size. Today's turmoil in Tokyo, right? Try late 1985, just weeks after finance ministers, meeting at Manhattan's Plaza Hotel, agreed to devalue the dollar against major world currencies. So began the *endaka*, or strong yen, era.

Now, a new bout of yen appreciation has driven the yen to a postwar high of around 88 to the dollar. Once again, a ritual is being played out. "We are not ready for 90 yen to the dollar," laments Yoshikazu Hanawa, Nissan Motor Co.'s executive vice-president for product planning and development.

But despite the complaints, manufacturers have grown adept at surviving yen shock and even benefiting from it. They are using the yen's strength to quickly and cheaply set up integrated manufacturing bases in dollar-linked Asia. And as a result of investments in the U.S., Mexico, and Europe, many Japanese companies are emerging as true multinationals. That allows them to play both sides of yen-dollar swings, using cheaper dollar-denominated parts and materials to offset higher yen-related costs.

"CUSHIONED." Indeed, the era in which Japan simply made finished products at home and shipped them out to the world is over. The most innovative companies are parting with stay-at-home Japanese suppliers and ceding more decision-making authority to overseas subsidiaries, particularly in the U.S. Their geographic diversification is such that "the losses and dislocations from the most recent yen evaluations won't be as high as they might have been," says Mark Mason, a Japan watcher and associate professor at Yale University School of Management. "To a very great extent, they've been cushioned."

That partly explains why the theory that currency movements will eventually solve trade imbalances isn't working as many U.S.-based economists predicted. *Endaka*—which should theoretically make Japanese products less price-competitive abroad—hasn't reduced Japan's record $121 billion global trade surplus, at least not yet. Export volume, up 9.6% in 1994, have increased steadily during the 1990s. Although a flood of cheap imports should lower the Japanese trade surplus by about 5% in 1995, Japanese bureaucrats' half-hearted efforts to remove import barriers will keep the surplus, and by extension the yen's value, high.

There's no denying the soaring yen means plenty of pain for Japan. The 18% decline this year in the Nikkei 225 average owes much to worries that the high yen will clobber corporate earnings. Salomon Brothers Inc. says *endaka* w keep economic growth below 1% in 1995. Worse, an exodus manufacturing jobs overseas threatens Japan's lifetime job-s curity compact. "The best manufacturers, like auto make will leave, while we keep the less efficient ones," frets Nom ra Research Institute analyst Richard Koo, author of *Go Endaka, Bad Endaka*.

True, some choice jobs will leave. Yet so will plenty of lo end manufacturing companies that would probably go und in high-cost Japan unless they move offshore. And the futu flows of profits from Japan's growing offshore operations v continue as big companies become increasingly sophisticat Take electronics powerhouse Hitachi Ltd., which has set eight manufacturing operations in the U.S. since 1985. Its li of projection televisions, assembled in Mexico, is very much global effort (chart). The small tubes that project informat come from a Hitachi subsidiary in Greenville, S.C., while chassis and circuitry are made by its affiliate in Malaysia

From Japan? Computer chips and lenses, or only ab 30% of the value of the parts being used. Hitachi exe

COMRADES IN ARMS Mitsubishi's Jack Osborn and Tachi Kiuchi are moving to "Americanize" production of big-screen televisions

es are quietly pleased that their decade-long ef-
s to ride out trade friction with the U.S. have
en them such flexibility. They've been able to
id any price increases for the projection TVs,
ich retail in a range from $2,800 to $4,400.
Of course, the recent yen appreciation is keeping
heat on Japanese manufacturers in the U.S. to
ke further moves to cope. Mitsubishi Electric
rp. is attempting to "Americanize" its production
big-screen televisions in Cypress, Calif. Tachi
chi, chairman of Mitsubishi Electric America Inc.,
urning his subsidiary into much more of a
-managing entity. It has taken control of
xican assembly plants away from headquar-
s in Japan. Purchasing, now done out of
oto and Singapore, is moving to the U.S.

ASE PAY MORE. The result? The yen-based
tent in Mitsubishi's TVs is shrinking
matically. "A year ago, all of our 35-
picture tubes were coming from Kyo-
says Jack L. Osborn, president of Mit-
ishi Consumer Electronics in Norcross,
"By next year, they'll all be coming
m North American manufacturers."
erall, Mitsubishi Electric estimates that
anese content is only 20% to 25% of the value of the
ds it sells.

While holding the line on the prices of such consumer
ds, Japanese companies are able to pass along currency-
ated costs in technologies where they don't face real
petition. With about 45% of the world's liquid-crystal-dis-
y market, Sharp is considering export price hikes that an-
sts say will be about 5%. Assemblers of computers in the
S. may have little choice but to accept such increases.
ewise, Kyocera Corp. will "ask" customers to pay 10%
e for computer-chip packaging and electronic compo-
ts later this year.

While they maintain their U.S. markets, the big Japanese companies also are using the strong yen to buy cheaper components from around the world and ship them home for assembly. That provides a competitive edge in Japan itself. Sanyo recently signed a deal with Mexican appliance maker Mabe to produce compressors for assembly into refrigerators in Japan. Similar strategies in China and Vietnam have contributed to an earnings turnaround at Sanyo.

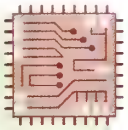
This "reverse export" trend has been showing up even within Japan's flagship auto industry. Toyota Motor Corp. this year will make 348,000 engines in the U.S., up from 233,000 in 1994. Not only does that reduce the number of costly yen-priced engines in U.S.-assembled cars but any extras—an expected 26,000 this year—will be exported back to Toyota plants in Japan and elsewhere to lower costs. Japanese auto-parts makers with U.S. plants are beginning to ship other components back home.

What impact will such a world-girding system have on Japan's trade surpluses? The betting is that Japan's global surplus will fall by about 5% in dollar terms this year. But the Japanese trade surpluses will still be painfully large, especially as sales to the rest of Asia continue to soar. And a high yen won't do much to shrink those surpluses as giants like Hitachi and Mitsubishi go global.

By Brian Bremner, with Edith Updike, in Tokyo, Larry Armstrong in Los Angeles, and James B. Treece in Detroit

Coping with *Endaka*

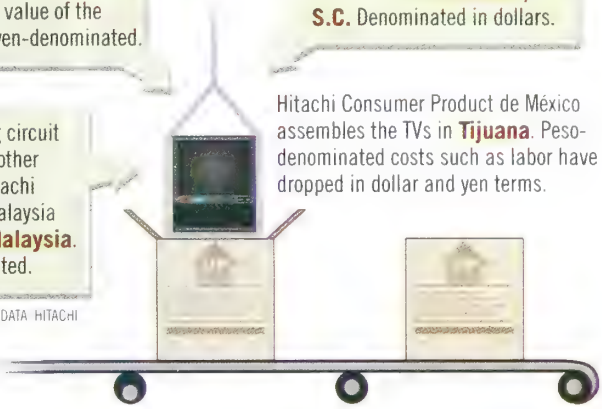
Hitachi's global reach allows it to continue making projection TVs without raising prices. Here's how:



From **Japan**, Hitachi procures semiconductors and lenses. Thus only 30% of the value of the parts used are yen-denominated.

The small tubes that project information onto the screen come from Hitachi Electric Devices U.S.A. Inc. in **Greenville, S.C.** Denominated in dollars.

The chassis, including circuit board, comes from another Hitachi subsidiary, Hitachi Consumer Products Malaysia in **Selangor, Malaysia**. Dollar-denominated.



Hitachi Consumer Product de México assembles the TVs in **Tijuana**. Peso-denominated costs such as labor have dropped in dollar and yen terms.

DATA: HITACHI

NO CHOICE BUT TO PAY UP
Texas Instruments may soon find prices rising for Sharp LCDs used in its laptop computer screens

COMMENTARY

By William Glasgall

THE SUPERYEN COULD SOON FALL BACK TO EARTH

In the contest of currencies since the industrial world's fixed exchange rate system collapsed more than two decades ago, the yen stands out as the long-distance champion. Twenty-five years ago, the Japanese needed 360 yen to buy one U.S. dollar. With their nation accumulating nearly $1 trillion in trade surpluses since the late 1970s, however, the Japanese can now buy a greenback for a bargain-basement price of less than 90. This year alone, the yen's value in dollars has shot up 12%.

Cover Story

The superyen has bankrolled Japan's dramatic push into Asia, just as it financed its move into the U.S. But despite the currency's extraordinary appreciation, it would be a mistake to assume it will gain indefinitely. Not only does the dollar remain the preeminent currency of international finance and trade but it also may benefit in coming months from a shift in global growth patterns, interest rates, and capital flows.

EXTRA HEFT. Some doubts about the yen's chances for further huge gains stem from Japan's reluctance to see it become a truly global currency. That gives the deficit-plagued dollar some heft it otherwise might lack. With 60% of America's banknotes circulating overseas—and many emerging economies pegging their currencies to the dollar—the buck is still the preferred medium of exchange from Guayaquil to Guangzhou. The dollar's share of world foreign exchange reserves remains around 55% today, notes Kemper Financial Services Inc. economist David D. Hale.

The yen accounts for a mere 9%, little changed from its level of a decade ago. And while 15% of all Eurobond issues are now denominated in yen, most of these bonds are issued by Japanese companies and sold to Japanese investors. Many foreigners are reluctant to borrow in yen. Japan's barriers to foreign direct investment prevent them from earning enough yen to repay their debts.

Despite Japan's unwillingness to see the yen play a greater global role, the country's recent economic policies have all but ensured that the currency would rise. Trying to overcome the hangover of the easy-money-fueled bubble economy of the 1980s, Japanese monetary and fiscal authorities have pursued a hard-money strategy of slow growth and deflation. That has helped cool global price pressures and permitted the U.S. to follow the opposite course: robust growth and tolerance of modest inflation. But with Merrill Lynch & Co. estimating that Japanese investors already have $400 billion in unrealized foreign exchange losses on their books, their willingness to recycle their trade surpluses back into dollars has been fading.

HOW STRONG? Some readers of the tea leaves think the Bank of Japan would like to see the yen drop back to 96, or even 100

However, 1995 could see both countries change course. Many economists expect the Federal Reserve to raise interest rates again this spring to rein in the U.S. economy. That should dampen inflation jitters and shrink the U.S. trade deficit. At the same time, Japanese officials are conceding that their economy may not be able to stand much more pressure from the yen. Acknowledging this, Finance Minister Masayoshi Takemura on Mar. 27 promised a new government spending plan to spur growth. In an unusually strong statement, he suggested that the Bank of Japan should cut rates. The bank will probably respond by slashing its record-low discount rate by 50 basis points, to 1.25%, this spring. Perhaps foreshadowing this, the bank has already pushed money-market rates to a six-month low. Coming on top of heavy central bank purchases of dollars, those moves have led some economists to think Japanese authorities would like the greenback to return to 96 yen, or maybe even 100.

If anything, Japan's new Asian investment focus could help this trend along. As Japanese manufacturers replace domestic production with goods from their new Asian factories, imports should rise, and the country's trade surplus should decline. It may never dwindle enough to make the yen a weak currency again. Even if it does, the yen should remain a relatively strong currency for years to come. But for now, some of the forces pumping the Japanese currency up could be taking a break.

Glasgall writes about global financ

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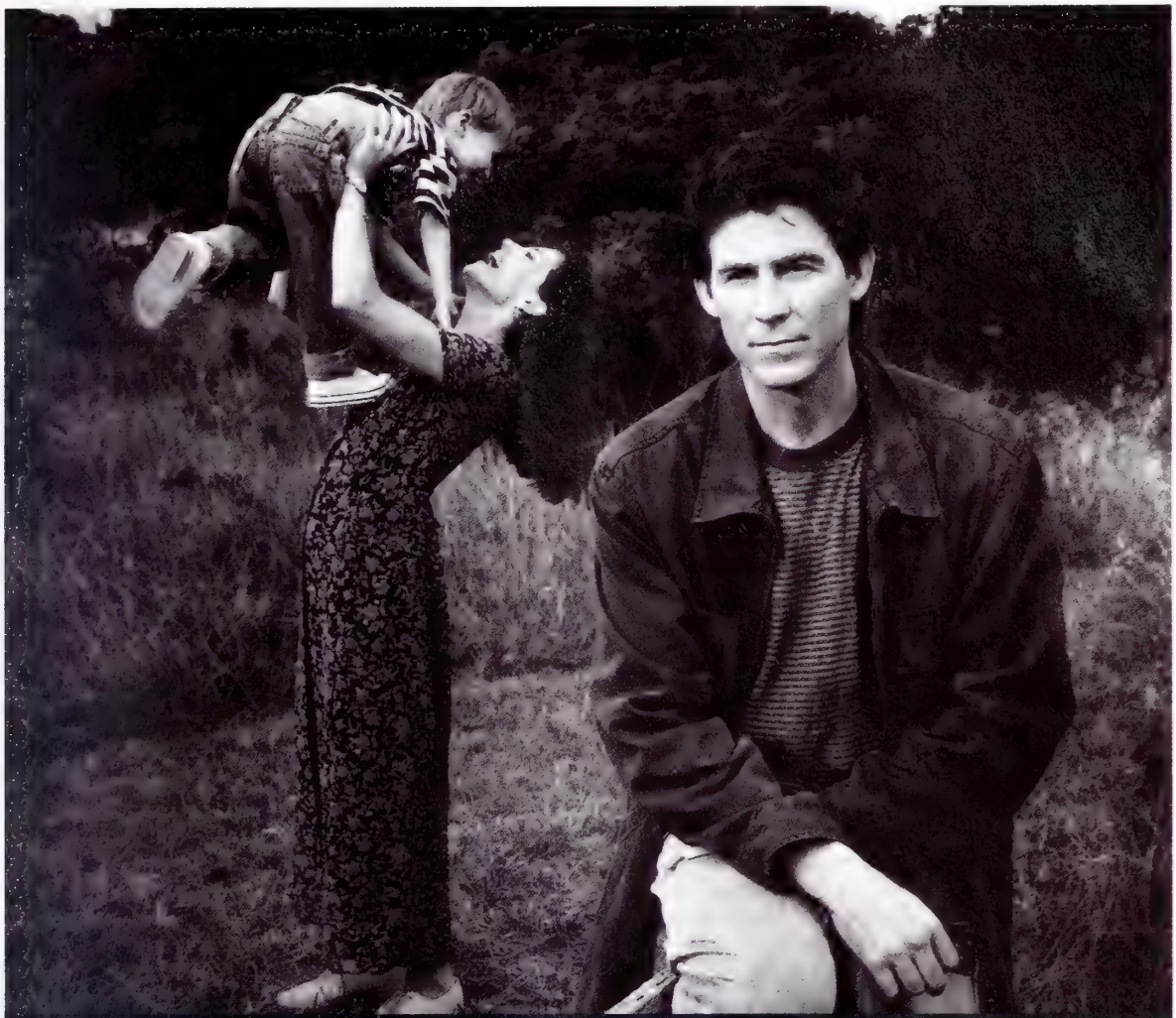

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After a dark and stormy 1994, their returns are looking up–way up

Patience may be its own reward, but when it comes to investing, the payoff is profits. Investors who stuck with their mutual funds through the sometimes dark and stormy markets of 1994 are now finally getting their reward. Funds that invest in U.S. stocks are sizzling, with returns of 7.5% for the quarter (through Mar. 27), including reinvestment of dividends and capital gains. Even more striking are the bond funds, which were pummeled last year in the worst bond-market rout since the Great Depression. Taxable bond funds posted an average 4% total return. And tax-free bond funds, after being even harder hit in '94, averaged a remarkable 6.3% gain for the quarter.

This strong fund performance should come as no great surprise to investors who have kept an eye on the markets this year. The Dow Jones industrial average crossed the 4000 mark weeks ago and is now up 8.4%. The Standard & Poor's 500-stock index hit a record of its own—the 500 mark—and is up more than 10%, including dividends. Both the Dow and S&P outpaced the average U.S. diversified equity fund, primarily because funds tend to invest in smaller companies. The funds matched the S&P MidCap 400 index and ran far ahead of the S&P SmallCap 600 index. The all-equity fund average was up only 4.2%, mainly because of heavy losses among the overseas funds, especially those that invest in the emerging markets of Latin America and Asia.

The zooming U.S. stock marke taking its cues from the bond cro which has turned bullish, betting on mounting evidence that the Federal serve's yearlong efforts will succee cooling the economy without killin So far this year, the interest rate long-term Treasury bonds, at 7.4% down more than a half a percent point and nearly a whole percent point from its November, 1994, pea rates. Some of the fund categories the quarter's best performances interest-sensitive—specialized finan growth-and-income, balanced, and e ty-income funds (table, page 124).

The recovery in fund performa has sparked a pickup in investment, but the industry is still a ways f

The Best Returns

	TOTAL RETURN*		TOTAL RETURN*
FIDELITY SELECT ELECTRONICS	22.44%	FRANKLIN SMALL CAP GROWTH	12.85%
PERKINS OPPORTUNITY	22.38	RYDEX OTC	12.80
RETIREMENT PLANNING GROWTH B	21.22	PUTNAM HEALTH SCIENCES A	12.60
GAM GLOBAL	19.90	FIDELITY SELECT HEALTH CARE	12.57
FIDELITY SELECT AIR TRANSPORTATION	19.07	FIDUCIARY EXCHANGE	12.23
GOVETT SMALLER COMPANIES	18.98	CHESAPEAKE GROWTH	12.19
ROBERTSON STEPHENS VALUE + GROWTH	18.20	QUEST FOR VALUE A	12.14
SELIGMAN COMMUNICATIONS & INFO. A	17.01	BULL & BEAR SPECIAL EQUITIES	12.09
BT INVESTMENT SMALL CAP	16.83	QUEST FOR VALUE OPPORTUNITY A	12.08
GAM INTERNATIONAL	16.27	FIDELITY SELECT HOME FINANCE	12.05
JOHN HANCOCK NATL. AVIATION & TECH. A	16.16	HARBOR CAPITAL APPRECIATION	12.03
FIDELITY SELECT COMPUTERS	15.65	PILGRIM MAGNACAP	12.02
JOHN HANCOCK GLOBAL TECHNOLOGY A	15.36	T. ROWE PRICE BLUE CHIP GROWTH	11.97
RYDEX NOVA	14.31	INVESCO STRATEGIC TECHNOLOGY	11.94
ARROW EQUITY	14.03	FIDELITY SELECT MEDICAL DELIVERY	11.84
CAPPIELLO-RUSHMORE EMERGING GRTH.	13.91	GROWTH FUND OF WASHINGTON	11.79
FIDELITY SELECT FINANCIAL SERVICES	13.89	KEMPER TECHNOLOGY A	11.76
FIDELITY SELECT SOFTWARE & COMPUTER	13.74	FIDELITY SELECT DEFENSE & AEROSPACE	11.74
CLIPPER	13.69	JOHN HANCOCK GLOBAL RX A	11.73
INVESCO STRATEGIC HEALTH SCIENCES	13.50	FRANKLIN CA GROWTH	11.73
AMERICAN CAPITAL EXCHANGE	13.19	ALGER MIDCAP GROWTH	11.72
SIFE TRUST	13.17	COMMERCE AGGRESSIVE GROWTH	11.67
CAPITAL EXCHANGE	13.09	JOHN HANCOCK REGIONAL BANK B	11.62
FLAG INVESTORS EMERGING GROWTH	13.03	VOYAGEUR GROWTH STOCK	11.59
FFB EQUITY	12.98	ALLIANCE TECHNOLOGY A	11.54

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS BEFORE TAXES. JAN. 1-MAR. 27, 1995

DATA: MORNINGSTAR INC.

The top 50 contains a rich mixtur of technolo health care and financi funds. Dive sified fund that made the list got help from investment these secto too.

halcyon days of 1993. Accord- to the Investment Company titute, stock funds banked net v cash of $8.7 billion in Febru- atop January's $6.8 billion. k in November's depths, the ow was a mere $3 billion. Bond ds counted $1.1 billion net new h in February—the first time year that more money went han came out.

ID STAY TIMID. But to see at's really happening, look at ch funds are getting the cash. ert Adler, whose AMG Data vices tracks weekly flows to ds, says so far this year about of the net cash winds up in wth-oriented funds that usu- buy smaller stocks, take ater risks, and have potential- igher payoffs. Funds that ap- l to the risk-averse are still ering outflows. The same pattern ws up among the bond funds. Most he cash is flowing to municipal and corporate bond funds, which tend ttract more sophisticated investors. e more conservative investors are on the sidelines," says Neal Lit- k, executive vice-president of Fidel- Investments. "They're waiting to if this move can be sustained."

f course, that's the $64 billion ques- . So far, the mutual funds have not the driving force behind the stock market's dramatic surge. But if funds' inflows keep increasing, then the market could get an added boost. That would be welcome news for market laggards, especially the small-cap stocks that are not in the S&P 500.

One sort of investment that has yet to rebound—in its performance or ability to attract new money—are the funds that invest abroad. Foreign-stock funds, the category that includes many emerging-markets portfolios, are down 6.9%. They're still reeling from the peso crisis that started in December and reverberated through Latin America and Asia. The quarter's worst performers are the Latin funds. Their huge losses of 20% or more may look bad now, but a few weeks ago, they were worse. It's too soon to call it a turnaround, but many Latin funds are up 20% from their lows.

HELPLESS YEN. Nevertheless, two international funds, GAM Global and GAM International, are among the best funds of the quarter. But their hefty returns come not so much from shrewd stock-picking as from bulking up on German bonds, which soared in value as the U.S. dollar reached a new low against the mark. "We don't think stocks are going to fall out of bed," says John R. Horseman, who runs both GAM funds. "Bonds simply offer better value." Only about 10% his funds' assets are in stocks.

The dollar's plunge vis-à-vis the mark and yen helped to boost returns in international bond funds. Funds that go heavy on mark- and yen-denominated securities—and don't hedge them back into dollars—made the biggest gains (table, page 124). But strong currencies can't overcome sinking stock prices. The worst-performers' list is also peppered with Japanese funds, despite the soaring yen.

Investors did not have to stray far

How the Big Funds Fared

FUND	TOTAL RETURN*	ASSETS** BILLIONS
FIDELITY MAGELLAN	9.37%	$38.2
INVESTMENT COMPANY OF AMERICA	7.03	20.1
WASHINGTON MUTUAL INVESTORS	10.26	13.7
FIDELITY PURITAN	4.06	12.3
VANGUARD/WINDSOR	7.07	11.3
INCOME FUND OF AMERICA	7.39	11.1
FIDELITY ASSET MANAGER	2.25	10.9
VANGUARD INDEX 500	10.22	10.1
FIDELITY GROWTH & INCOME	8.07	9.9
JANUS	7.51	9.8

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS, BEFORE TAXES, JAN. 1-MAR. 27, 1995 **AS OF FEB. 28, 1995

DATA MORNINGSTAR INC

he Worst eturns

	TOTAL RETURN*		TOTAL RETURN*
WRIGHT EQUIFUND-MEXICO NATL. FID.	-43.79%	VAN ECK INTL. INVESTORS GOLD A	-14.07%
MORGAN STANLEY LATIN AMERICAN A	-32.97	MORGAN STANLEY INSTL. JAPANESE EQUITY	-13.84
BT INVESTMENT LATIN AMERICAN EQUITY	-30.68	KEYSTONE PRECIOUS METALS HOLDINGS	-13.79
HERCULES LATIN AMERICAN VALUE	-28.18	PNC INTERNATIONAL EMRG. MKTS. INSTL.	-13.39
MERRILL LYNCH LATIN AMERICA B	-27.53	MORGAN STANLEY EMERGING MARKETS A	-13.21
TCW/DW LATIN AMERICAN GROWTH	-27.23	VANGUARD SPEC. GOLD & PREC. MTLS.	-13.13
FIDELITY LATIN AMERICA	-26.92	G.T. GLOBAL JAPAN GROWTH A	-12.67
T. ROWE PRICE LATIN AMERICA	-25.56	SEVEN SEAS EMERGING MARKETS	-12.64
UST MASTER EMERGING AMERICAS	-22.25	EVERGREEN GLOBAL REAL EST. EQTY. Y	-12.27
WARBURG PINCUS JAPAN OTC COMM.	-21.70	GAM PACIFIC BASIN	-11.94
UNITED SERVICES GOLD	-21.61	HERCULES PACIFIC BASIN VALUE	-11.87
LEXINGTON STRATEGIC INVESTMENTS	-21.36	FIDELITY JAPAN	-11.86
SCUDDER LATIN AMERICA	-20.92	MONTGOMERY INSTL. EMERGING MARKETS	-11.77
PIMCO ADV. INSTL. BLAIRLOGIE EMRG.	-19.06	T. ROWE PRICE JAPAN	-11.62
JAPAN	-18.93	G.T. GLOBAL INTERNATIONAL GROWTH B	-11.47
RBB-BEA EMERGING MARKETS EQUITY	-18.85	FIDELITY PACIFIC BASIN	-11.43
MORGAN STANLEY INSTL. EMRG. MKTS.	-17.02	MONITREND GOLD	-11.39
MORGAN GRENFELL EMRG. MKTS. EQTY.	-16.35	VANGUARD INTL. EQTY. INDEX EMRG. MKTS.	-11.32
FIDELITY EMERGING MARKETS	-16.12	LEXINGTON GOLDFUND	-11.30
BLANCHARD EMRG. MKTS. GRTH. & INC.	-15.46	LEXINGTON WORLDWIDE EMERGING MARKETS	-11.16
LAZARD EMERGING MARKETS	-15.21	MONTGOMERY EMERGING MARKETS	-11.14
EV MARATHON GREATER INDIA	-15.14	PIONEER EMERGING MARKETS A	-11.13
BULL & BEAR GOLD INVESTORS	-14.76	MORGAN GRENFELL INTL. SMALL CAP EQTY.	-11.04
MITCHELL HUTCHINS/KIDDER EMRG. MKTS. B	-14.75	BJB INTERNATIONAL EQUITY A	-10.96
G.T. GLOBAL EMERGING MARKETS A	-14.36	T. ROWE PRICE INTERNATIONAL DISCOVERY	-10.77

*RECIATION PLUS REIN- ED DIVIDENDS AND TAL GAINS BEFORE TAXES, 1-MAR. 27, 1995

MORNINGSTAR INC.

The Mexican meltdown spread to the rest of Latin America and the emerging markets of Asia, too. In the last few weeks, some of these markets have begun to stabilize, allowing the funds to cut their losses.

Funds Tied to Health Care and Finance Top the Level

	TOTAL RETURN*		TOTAL RETURN*
HEALTH CARE	10.91%	UTILITIES	3.67%
FINANCIAL	10.08	SPECIALTY-MISC.	2.69
GROWTH & INCOME	8.36	NATURAL RESOURCES	2.31
GROWTH	7.77	EUROPE	1.23
TECHNOLOGY	7.74	WORLD	–1.46
EQUITY-INCOME	7.50	FOREIGN	–6.87
MAXIMUM GROWTH	6.77	PACIFIC	–7.11
BALANCED	6.41	PRECIOUS METALS	–7.31
SMALL COMPANY	5.75	ALL EQUITY FUNDS	4.21
ASSET ALLOCATION	4.85	U.S. DIVERSIFIED EQUITY	7.51
INCOME	3.74	S&P 500	10.04

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITAL GAINS BEFORE TAXES, JAN. 1-MAR. 27, 1995

DATA: MORNINGSTAR INC

The bond rally helped boost returns for the more interest-sensitive funds, like balanced and equity-income.

from home to score big bucks this year. Just look at Perkins Opportunity Fund, a tiny, $11 million fund in Wayzata, Minn., that is up 22.4% so far this year atop last year's 14.9%. The fund invests in small, emerging growth companies, and by policy prefers at least half the portfolio to be based in the Upper Midwest. "These can be risky investments," says Daniel S. Perkins, who runs the fund along with his father, Richard, at Perkins Capital Management Inc. "But these companies are nearby, we know them well, and we are comfortable buying them." Their major holdings may not even be household names in Minnesota: InnerDyne, Plaintree Systems, and CNS.

RIPE PICKINGS. Geography may have had some role in their success, but most of the Perkins' companies are in the health-care and computer-technology sectors, which are among the most robust areas of the market. And most funds that made it to the quarter's top-performers list were heavily into one or the other or both. "Those are areas where you see new products and innovations all the time," says Graham Y. Tanaka, who runs Retirement Planning Growth Fund, up 21.2% for the quarter. Among Tanaka's major holdings are Adaptec and ASM Lithography in technology and Pfizer and Teva Pharmaceutical in health care.

At BT Investment Small Cap Fund, another hot fund, portfolio manager Mary Lisanti has racked up 16.8% growth this year by concentrating more than two-thirds of the fund on health care and technology. In those sectors, she's buying stocks of companies that enhance productivity, such as Macromedia Inc., which sells software development tools, and Phamis Inc., which provides information systems for the health-care industry.

Of course, capturing hot stocks in a small fund can really enhance performance. The really big equity funds had mixed results (table, page 123). The $38.2 billion Fidelity Magellan Fund racked up a neat 9.4% gain. That was still behind the S&P, as were the returns of most of the diversified funds at Fidelity. The stock market's shift to large consumer growth stocks caught the Fidelity crowd quite off guard. "It wa Coke and Pepsi market," says Geo Vanderheiden, who heads Fidelit group of growth funds, "and we w underweighted in those kinds of stock

CALIFORNIA CREAMING. Among the b funds, the big story is the comeback the muni market. Veteran muni-fu managers, like Alliance Capital M agement's Susan Keenan and Sm Barney Inc.'s Joseph Deane, say t knew all along the snapback wo come. Mutual-fund investors weren' sure. Late last year, bond-fund rede tions hit their peak. And if that wer enough pressure, the collapse of the ange County investment pool and su quent bankruptcy filing put even m selling pressure on munis, especiall the huge California municipal-bond m ket. "Munis got so cheap" relativ taxables, recalls Keenan, that alre tax-exempt investors like pension fu bought them "for the tremendous p portunity." Keenan's Alliance funds l ed up as well—a bold move, conside some of her funds were down 10% last year.

The rebound bet paid off handson Since then, long-term AAA munis h shot up about 15% in price. More says Deane, munis have not yet their course "and still offer excel value." He estimates that over the two years, $100 billion more in bo will be retired than issued, making maining bonds ever more valuable. the demand for tax-exempt bonds be there, says John Teall of Lipper alytical Services Corp. "One thing can count on is that Americans ha pay taxes."

The lesson for mutual-fund inve from this quarter's rally is clear: may feel better by bailing out wher market gets choppy, but you also missing the gains when the reb takes hold. Patience, patience.

By Jeffrey M. Lader in New

Bond Funds Rebound to Make Strong Gains

TAXABLE FUNDS	TOTAL RETURN*	TAX-FREE FUNDS	TOTAL RETURN*
FRANKLIN/TEMPLETON GERMAN GOVT. BOND	13.38%	CALIFORNIA MUNI	14.17%
SEI INTERNATIONAL FIXED-INCOME A	12.04	ALLIANCE MUNI INCOME CA A	10.86
STATE ST. RESEARCH INTL. FIX.-INC. C	11.98	ALLIANCE MUNI INCOME INSURED CA A	10.66
FIDELITY YEN PERFORMANCE	11.81	SAFECO CA TAX-FREE INCOME	10.47
BENHAM EUROPEAN GOVT. BOND	11.20	SMITH BARNEY CA MUNICIPALS A	10.27
FIDELITY DEUTSCHE MARK PERFORM.	11.02	ALLIANCE MUNI INCOME INSURED NATL. A	10.20
BENHAM TARGET MATURITIES 2020	10.39	BLANCHARD FLEXIBLE TAX-FREE BOND	9.64
MANAGERS BOND	10.18	VOYAGEUR CA INSURED TAX-FREE A	9.63
REMBRANDT GLOBAL FIXED-INCOME TR.	10.06	USAA TAX-EXEMPT CA BOND	9.55
LAZARD INTERNATIONAL FIXED-INCOME	9.98	SMITH BARNEY MANAGED MUNICIPALS A	9.54
AVERAGE OF 1146 FUNDS	3.95	AVERAGE OF 1011 FUNDS	6.27

*APPRECIATION PLUS REINVESTED DIVIDENDS AND CAPITALS GAINS BEFORE TAXES, JAN. 1-MAR. 27, 1995 DATA: MORNINGSTAR INC.

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REAL ESTATE

WHO SAYS THE '80s ARE OVER?

Nomura's Ethan Penner makes his own rules, and his mega-profits come with mega-risk

PENNER: SIDESTEPPING RED TAPE AND OVERSIGHT

ETHAN PENNER

AGE: 33

EDUCATION: New York University

PAST JOBS: Mortgage trader at Drexel Burnham Lambert, mortgage salesman at Morgan Stanley

CURRENT JOB: Head of Nomura Securities' real estate finance un

1994 BONUS: About $10 million

BIGGEST ACCOMPLISHMENT: Created expanded market for securitized commercial real estate

HERO: Michael Milken

DATA: BUSINESS WEEK

By all accounts, the Palm Springs conference at La Quinta last February was a spectacle. The 500 guests constituted a who's who of real estate. The gathering got rolling Thursday night with rock 'n' roll by the Gin Blossoms, followed the next evening by the Four Tops, and then, on Saturday, the Eagles. After playing their signature song, *Hotel California*, Eagles lead singer Glen Frey stepped up to the mike and wryly remarked: "You folks must have had a good year, because we don't come cheap."

He got that right. The host of the event, a phenomenally successful, 33-year-old dealmaker named Ethan Penner, has had a very, very good year. A boyish supersalesman, Penner has rapidly established himself as the biggest, most aggressive player in commercial real estate finance by lending hundreds of millions of dollars to developers and then packaging and selling the mortgage loans. He is by far the most profitable employee at Nomura Securities International Inc. (NSI), the U.S. subsidiary of the huge Tokyo-based brokerage. Nomura's U.S. unit, headed by co-chief executive Max Chapman, earned $140 million in the year ending in March, 1994, with $75 million of that attributed to Penner's commercial real estate unit, say sources close to the firm. Both Chapman's and Penner's bonuses are tied to Penner's profits, with Penner raking in about $10 million last year. For the year ending March, 1995, Penner's unit will likely post a profit of $150 million, largely offsetting $175 million in losses by the rest of Nomura Securities, say these sources. This could earn him a bonus of as much as $15 million. "Nomura is Ethan Penner," says one former employee.

Penner is a throwback, an '80s-style wheeler-dealer. He counts as one of his role models junk-bond kingpin Michael Milken, who staged similar investment extravaganzas. Penner has an active extracurricular life: He hobnobs with the likes of Elton John, lives in a trendy Manhattan apartment building, and enjoys the high life, including being a regular at Bouley, Zagat's pick for New York's best restaurant. "If Etna weren't involved in the securities business, he would be the perfect Hollywood producer," says Stephen Williams, a former partner of Penner's who heads his own hedge fund. "He is a great showman."

Right now, Penner is selling a $6[illegible] million issue of commercial mortgage-backed securities, a complex product called MegaDeal III, a name Nomura has trademarked. The first two MegaDeals raised $1.1 billion in 1994. So their record is pristine. "To my kn[illegible]

e, there are no delinquencies in the t two MegaDeals," says Ron Wech-, an executive at Fitch Investors vice.

Yet envious competitors portray Pen-'s real estate dealings as something high-wire act. They regard him as a ential rogue wunderkind, such as der Nicholas Leeson, whose exploits erely damaged Barings PLC. Penner's rations account for some $3 billion, bout 10%, of Nomura's $35 billion in ilities. Rivals believe that while the nest-rated portions of the MegaDeals well, Penner has been forced to re- the riskiest portions, the so-called ieces, which rating agencies refuse to e, and keep them on Nomura's bal-e sheet at generous prices. Compet-s further claim that his short-term uisition loans to developers are also y risky.

Nonsense, says Penner. He insists mura has no B-pieces on its balance et: "We don't have a big, stale inven-y." And when Nomura does have e inventory, he says, "we carry them y conservatively." Penner says No-a currently has $400 million in ac-sition loans, but only one has ever e sour—a Roanoke (Va.) shopping-ter mortgage. "We take more risk anybody else on Wall Street," says ner. "We're in the business of taking dent risk and managing that risk." hael Berman, NSI's chief operating er, says controls are strong, the 's risk manager reports directly to , and inventory is priced daily and servatively. "I don't want Nick Lee-to happen here," he says.

FLAG? Penner's career was touched ontroversy even before Nomura. The of a rabbi, he grew up in Yonkers, . After New York University and ral stints at small thrifts, he began Wall Street career at Drexel Burn- Lambert Inc. in 1986 as a mort- trader. In 1987, he jumped to Mor- Stanley & Co. in New York, later ling mortgage finance in the firm's Francisco office. He ran into trouble the first real estate customer he ght in, a joint venture between Ex-ive Life and a former Drexel buddy, ard Hollander, known as Signature p. In 1990, Morgan made what was ntially a $50 million secured loan to ature in the form of repurchase ements using commercial mortgages. en, Executive Life went bankrupt, h caused the repos to be frozen in ruptcy court. That forced Morgan ley into a protracted legal battle Signature to recover the $50 mil- Morgan Stanley blamed Penner for ging in Signature, being sloppy in ging the transaction, and not pro-ng Morgan Stanley's interests. Pen-

CHAPMAN: *Co-CEO of Nomura U.S.; his bonus is tied to Penner's profits*

ner left the firm acrimoniously. Morgan Stanley, which will be made whole in a recent settlement with Signature, declines comment. Penner says other Morgan Stanley departments share responsibility for the soured deal, as well as "senior people who tried to make me a scapegoat to preserve their jobs."

Penner next started his own small firm in San Francisco. In 1993, Berman wooed Penner to Nomura, impressed by his vision of a real estate finance powerhouse. Penner's timing was perfect: The real estate market had hit bottom, and lenders were few. Penner began cultivating a group of high-powered clients just as the market rebounded.

Penner soon made Nomura Wall Street's leader in commercial real estate lending, with $7 billion in loans. "We finance more commercial real estate properties than anyone in the country and have for the past two years," he boasts. He has also greatly expanded the market for securitized commercial real estate. Traditionally, Wall Street firms would not finance commercial real estate projects until the loans were securitized and salable, a process that takes months. Penner changed the game: He lent Nomura's money to developers up front, then took the risks of holding the loans until they could be securitized and resold. This naturally has made Penner popular with the commercial real estate borrowers who flock to his parties, because it has reduced the time it takes to get their loan from months to weeks. "Nomura are risk-takers," says James F. Titus, a director of Standard & Poor's Corp. "They've been very aggressive in using their balance sheet to provide large sums to lots of players."

"COMMITTEE OF ONE." Penner's profitability gives him huge clout within Nomura. He has essentially built a firm within a firm, insulating himself from the company's controls, say sources close to Nomura. Despite rules against nepotism, Penner's brother Joseph works in Nomura's Los Angeles office. "There is one set of rules for the firm and one set of rules for Ethan, which is no rules," says one source. Responds Berman: "Ethan doesn't have a separate set of rules he can operate under."

Still, Penner has an unusual degree of autonomy. Consider Scott A. Wolstein, CEO of Developers Diversified Investments, a real estate investment trust. In 1993, he had his first conversation with Penner about a loan. That same day, Penner took a plane to Wolstein's Moreland Hills (Ohio) office and made him a $150 million secured loan to make acquisitions. Of that, $12 million was advanced the next week in an unsecured loan to help Wolstein negotiate better terms on a separate bank financing. "Ethan and I made a deal in five minutes," he says. "It shows you the advantage of Ethan being a committee of one and being able to act."

Last December, Penner's unit spent $24.5 million to buy a controlling interest in Winthrop, a Boston real estate partnership without even telling his Japanese bosses. And he did it even though Apollo Partners, a buyout firm, was seeking financing from Nomura to buy Winthrop.

Penner did face a hitch: Winthrop was being sued by its limited partners. But Penner believed the litigation would be settled cheaply. He miscalculated. The plaintiffs won at least $39 million. "They were in big, big-time shock," says Charlie Parker, the plaintiffs' attorney. No-

Why Nomura Needs Penner

PHOTOGRAPH BY GARY SPECTOR; CHARTS BY ALAN BAKDEN

mura lawyers were able to whittle the award down to $17 million. But when executives in Nomura's Tokyo headquarters learned of the purchase, they were quite uncomfortable and encouraged him to unload it, say sources close to the firm. Nomura is now trying to sell Winthrop. A possible buyer: Apollo. Berman's comment: "I am convinced, worst case, Winthrop won't cost us any money."

Penner got his way in another situation. Nomura underwrote MegaDeal I in March, 1994. But in a rush to book profits before the Mar. 31 yearend, Penner's group gave preliminary prospectuses to clients early. That violated Securities & Exchange Commission rules and allowed buyers to sue to obligate the firm to buy the securities back at the purchase price. To create reserves to pay any clients who exercised that right, Nomura asked Penner to set aside part of $10 million bonus. But when Penner timated legal action, Nomura paid Penner doesn't deny the incident says he didn't play hardball.

Despite the dispute, Penner says has enough money. What he is motiv ed by, he says, is "building a legac can be proud of." But what that leg will be remains an open question.

By Leah Nathans Spiro in New Y

DEALS

TURNING THE TABLES ON MESA

David Batchelder may pick a proxy fight with Boone Pickens

Legendary oilman and corporate raider T. Boone Pickens Jr. is facing the fight of his life. Now, though, in an odd twist, he's the target. Pickens, whose fortunes have been ebbing ever since the late 1980s, may soon have to deal with a nasty proxy fight for control of Mesa Inc., his flagship oil-and-gas company. He could end up with a stripped-down company—or none at all.

The aggressor: none other than David H. Batchelder, a steely takeover artist who masterminded Mesa's widely publicized assault on Phillips Petroleum Co. and others in the 1980s before quitting Mesa in 1988. Batchelder is particularly interested in the fate of Mesa's prime holdings in the Hugoton gas fields in Kansas, Mesa's chief asset. He apparently thinks he can break up and sell Mesa—whose stock closed on Mar. 29 at 6 a share—and get 10 or more. "These are clearly the trophy properties to come on the market in the last 10 years," says Batchelder. His client, Montana investor Dennis R. Washington, accumulated 4.5% of Mesa stock toward the end of last year at an average price less than 5¼ and filed with the Securities & Exchange Commission for permission to acquire as much as 49%. Batchelder also moved to nominate three directors, including himself, to Mesa's seven-member board. The fireworks could start shortly. Batchelder is said to be preparing proxy filings, and a showdown could come as early as Mesa's May 17 annual meeting.

The 66-year-old Pickens declined to be interviewed for this article, but he told BUSINESS WEEK in a brief conversation on Mar. 27 that he was not concerned about a possible proxy contest.

Pickens, though, apparently feels that he can fend off a proxy battle by selling his Hugoton gas fields to pay off $1.2 billion in debt that he incurred in the 1980s to acquire properties based on a then-rosy gas-price outlook. Since that time, prices have tumbled, along with Pickens' net worth and Mesa's stock.

PAST PALS: 1980s LBO PRO PICKENS (LEFT) NEEDS CASH FAST TO WARD OFF EX-ASSOCIATE BATCHELDER

Mesa stock has fallen from a high of 91¼ in 1986 to 3¾ last year. Pickens is betting that a major oil company will solve his problem by paying $1.2 billion for the Hugoton properties. One major outfit is said to have offered more than $900 million, but Pickens' friends say he won't entertain any bids that don't allow him to clean up his balance sheet. If he succeeds, however, Mesa, which has been losing money and reserves for years, could emerge smaller but healthier—and independent.

But the betting in the oil fields is that he won't get his price. Indeed, most would-be buyers value Mesa's Hugoton reserves and other assets at about $960 million, not $1.2 billion. Such a sale would still leave Mesa saddled with nearly $ million in debt but without the fie that now contribute two-thirds of p duction. Mobil Corp. Chief Executive ficer Lucio A. Noto has expressed in est "at the right price." But othe including Phillips Chairman W. Wa Allen, have decided not to bid. Eve Pickens doesn't get his price, Mesa w face bankruptcy. In 1993, Mesa postpo that possibility by deferring repaym on about half of the $1.2 billion debt til 1998.

Pickens' survival and Batchelder's cess both depend to one degree or other on a fairly optimistic view of prices, one that is not universally sha Says Apache Corp. CEO Raymond Pl "Batchelder has to be betting gas pr will improve—and everyone who has lieved that over the past five years had the privilege of losing money."

NOTHING TO LOSE. Batchelder is in a cidedly better position than Picke and he seems to think he can win without sharply higher prices. His st egy is apparently two-pronged: One sibility is that Pickens could fail to his price for the field and refus sell—so then Batchelder w seize control, shop the field agg sively, reduce debt service, an overhead, including Mesa's jet the other hand, if Pickens' sale ceeds, Batchelder apparently th he can profit by pressuring P ens to do everything he woul anyway. At worst, analysts t he could back out without ta losses. Batchelder declined to ment publicly on his plans.

Whatever the case, the looming b is attracting many stock speculators vestors, including Pickens himself, in recent months boosted the Mesa price by 50%, to 6, in heavy tra Michael R. Spohn, research direct J. S. Herold Inc., thinks Batchel strategy could work. But he adds: have no interest [in Mesa] if there no raiders."

By Peter Burrows in Dallas Phillip L. Zweig in New York, Christina Del Valle in Washington

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BY GENE G. MARCIAL

HOW TO STRIKE OIL —IN ARGENTINA

Has the market peaked? Investment manager Tony Hitschler thinks it might still have a way to go, but the risks are mounting. So he has been scouting out sectors left behind in the market run-up—oil companies, for instance. But forget about the usual oil plays, he says. Topping Hitschler's list is a foreign stock: YPF. The company is Argentina's No. 1 industrial concern and the world's 11th-largest publicly traded oil company. Its American depositary receipts (ADRs) trade on the Big Board.

With Mexico and other Latin American markets in a funk, YPF has become a bargain, says Hitschler, president and chief investment officer of Brandywine Asset Management, which controls assets of $3 billion.

An integrated oil-and-gas producer, YPF is the most undervalued of the international oil companies, he asserts. And YPF's already attractive fundamentals will be enhanced, Hitschler believes, by its acquisition of Dallas' Maxus Energy, which was announced on Mar. 1.

Most analysts had expressed concern about the deal. But Hitschler argues that owning Maxus will bolster YPF's cash flow and earnings in the long term. He explains that YPF has the money needed to develop Maxus' assets, including extensive reserves of oil and gas in Indonesia. Before the YPF deal was announced, Amoco had offered to buy these Maxus reserves for $585 million.

YPF shares, which closed at 18 on Mar. 28, traded as high as 30 in early 1994. Hitschler likes YPF's depressed price-earnings ratio of 9.5—based on estimated net earnings of $1.90 a share—compared with ratios of 15 to 18 for the U.S. oil biggies. Even at those levels, he notes, multiples of the U.S. stocks are being hurt by weakened earnings. But in the case of YPF, he says, the p-e is hampered by the depressed stock and not by the earnings, which have been on the rebound. He thinks YPF could hit 30 in 12 to 18 months.

Analyst Mary Quinn of S.G. Warburg is also high on YPF. "Despite continued uncertainty [in Latin America], YPF is cheap relative to its U.S. counterparts on an asset-value basis," she says. And in spite of possible "dilutive effects and strategic decisions involved in the Maxus transaction, investors with strong stomachs and a relatively long-term view should be rewarded with substantial capital appreciation."

THE BRITISH IN BED WITH HILTON?

The Street's takeover target *du jour* is Hilton Hotels (HLT), which has climbed to the top of the rumor chart. Since early March, buyout buzz has propelled it from the low 60s to the mid-70s. The price spiked to more than 77 on Mar. 27 but eased to 74¾ on Mar. 28. What's really going on? A deal may be in the offing, or so say money managers who have been buying—and who have connections with pros in Las Vegas, where Hilton Hotels owns five casino-hotels.

They are convinced that a British outfit is about to make a bid of $90 to $100 a share. Earlier suggestions were that management might split up the hotel and casino operations—and sell off pieces—or merge Hilton with a large entertainment company. But now, the British concern, which has huge entertainment, gambling, and hotel interests, is said to be talking seriously about a deal.

Speculation began in earnest in November, after Hilton said it was considering moves to enhance shareholder value, including the sale of the company. The stock, which traded in November at 57 a share, zoomed in just one day to 68¾.

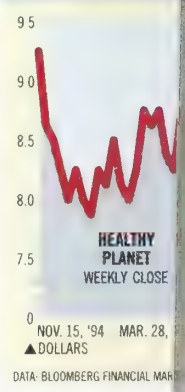
One pro believes Chairman and CEO Barron Hilton is holding out for more money. "Price is what has been hampering a deal. Barron refuses to consider anything less than $100," says this manager. Barron Hilton controls 24% of Hilton's stock. Hilton declined commen

'WITH BEST WISHES FOR A JUICY DEAL'

Although Healthy Planet Produc (HPPI) is but a tiny speck in th thriving greeting-card business, it h attracted several investors who ha accumulated huge blocks of share They include the Bluhdorn famil which controls 24% of the stock, a the estate of Ludwig Jesselson, w was the founder of Philips Brothe and then became chairman of its su cessor company, Phibro-Salomon. T estate holds a 22% stake. A lawyer a sociated with Roy Disney's investme firm, Shamrock Holdings, has a stake nearly 5%.

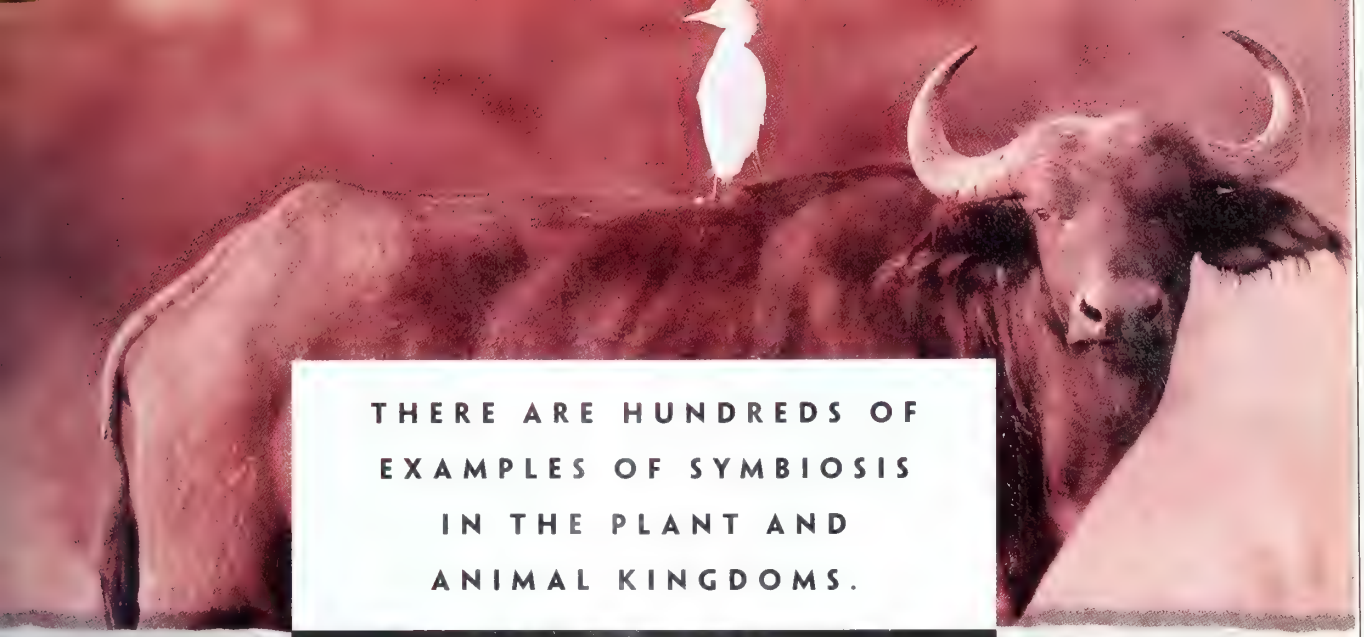
Healthy Planet designs and mak cause-related cards and stationery, well as environmentally friendly gi under license from such organizatio as the Sierra Club, the Wilderness S ciety, and the Humane Society.

But takeover interest may disru the corporate peace. A large retailer believed to be seeking to buy the co pany. One investor says the would-b buyer has sought the help of some Healthy Planet shareholders to persuade management to agree. He says that the stock, trading at 8, is worth 15.



"The company has a clean balance sheet, with little debt, and has about $3 million in cash and $7.5 million in tax-loss carryforwards," notes a major investor. With the recent strong pickup in earnings, "the co pany has become an attractive ta over play," he says.

The company's valuation has b bolstered by recent results: Heal Planet reported 1994 earnings of million, or 56¢ a share, more than tw the 1993 earnings of $463,832, or He figures 1995 earnings will lea 70¢. Bruce Wilson, president, says would accept an offer if it would maximize shareholder value.



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SOFTWARE

BILL GATES, UNCENSORED

Microsoft's CEO vents his ire at rivals and the media

The success that made Microsoft Corp. the most powerful player in the computer industry and Chairman William H. Gates III the richest man in America has always put the company and the man at the center of controversy. Federal investigators spent four years trying to nail down allegations that the $5 billion software giant competes unfairly, but stopped short of bringing charges. It looked like the issue was laid to rest when Microsoft agreed to a Justice Dept. consent decree last summer. But Stanley Sporkin, the federal judge reviewing the agreement, has questioned whether the Justice Dept. pursued every avenue in its probe—leading to a new round of suits and the revival of allegations about Microsoft's aggressive tactics.

In an exclusive interview with BUSINESS WEEK *San Francisco correspondent Richard Brandt, an exasperated Bill Gates offers his side of the story—and vents at the press, competitors, and his other tormentors.*

Q: *Do you think Microsoft is being treated unfairly?*

A: When I come in to do my job, it's about: How can we make Microsoft Office better? How can we make NT better? Is it moving forward, are costs coming down? Are consumers getting benefits from it? Take Microsoft prices: They keep coming down. You don't read any of that.

We have been very successful in business. You wouldn't know that from reading the articles about us. I guess we'll get some good press when we're not doing well as a business, when our products are not popular. It seems strange to me that we help our customers, that we are willing to take risks on long-term visions, and that is being completely ignored.

Q: *What about the criticism from within the industry?*

A: There are a few competitors who will speak up anytime they can get a pulpit. That's not surprising. I'm not aware of any criticism of any kind from 95% of the software companies.

Q: *Which competitors do you lump in the vocal 5%?*

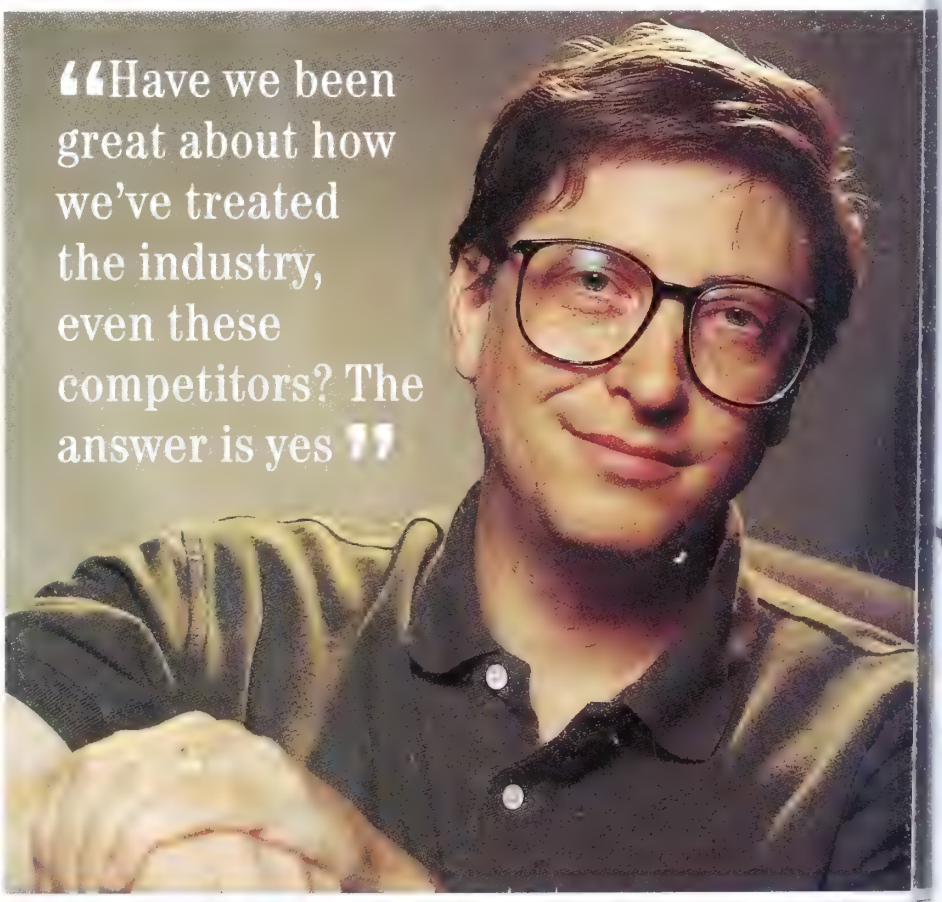
A: Lotus, Novell, Sun, Apple—If you ask those companies, they'd each probably say we're their No. 1 competitor.

And people who fought Windows, who fought the Macintosh, they're the ones who are getting the pulpit to speak out. Take Sun Microsystems. Sun funding Gary L. Reback [Sun declines comment on its relationship with th Silicon Valley lawyer who filed brie with Sporkin on behalf of several co panies] and saying they're concern about retaliation? Help me with th one. No reporter seems to get it. It's joke. Sun's prices are being broug down because the PC industry is much more competitive than the indu try they're in.

Q: *One of the recurring charges by co petitors—and central to your curre legal battle with Apple Computer Inc is that you have withheld adva copies (so-called beta releases) of n operating systems to stymie compe tion. Do you have an obligation to tr everyone the same?*

A: When a company's doing a new, novative product, there's no obligat for it to share that with competito That's been firmly established, whet it was Kodak doing new film or IBM ing new computers. There's no obli tion for us to give anything to comp tors before we give it to customers.

If you're sharing that stuff too fre you have to wonder what kind collusion is going on. Competit



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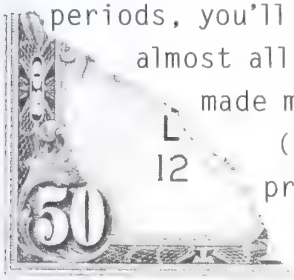

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are not encouraged to share things. They are encouraged to compete.

Q: *What about charges that you retaliate against companies that act against you? Apple says you withheld betas it needs to make the Macintosh more compatible with Windows.*
A: There's an interesting asymmetry here. When Apple said it wanted to license Windows to make it part of the Macintosh, we said why don't you license Macintosh as an optional thing to run on Windows? For proprietary reasons, they won't give our customers that choice. So there's an asymmetry there.

We've made Windows 95 broadly available. We've provided the betas that people wanted with the exception of a few operating-systems competitors. Ask Lotus how many betas they've had. We sent them 356 beta products during calendar '94. Even Apple [an operating-systems rival].

Apple sued us to shut down Windows [claiming Windows violates Apple copyrights]. It would have basically destroyed our company. And yet, despite their [action] against us, we are their most serious developer.

If your question is, does Microsoft know how to turn the other cheek when we get slapped, the answer is yeah, just look at the track record. And look at today. Ask anybody who says the various unfounded things they've been saying. Are they getting Windows 95 betas? Have we been great about how we've treated the industry, even these competitors? The answer's yes.

Q: *Windows, which now ships with 85% of all personal computers sold, gives you incredible leverage....*
A: Are you saying we could never fail?

Q: *No, but given the momentum you've got, software makers are assuming that Windows 95 compatibility will be essential to their survival.*
A: You take a very simplistic view of this industry to say that. I'm sorry, it's just wrong.

Q: *So there's no guarantee that Windows will always be the software that others must be compatible with?*
A: It won't be. We take risks when we do new versions. We come up with new ideas and they may or may not be successful. Seriously, this is one of those jokes, right? You're saying that if we never updated Windows that it would still be successful?

Q: *No.*
A: No, I think that's what you just said. Anyway, there are plenty of people doing Windows-compatible things. You know that. Windows compatibility isn't just available here.

Q: *Still, doesn't your strong position in operating systems give you a huge advantage in entering new markets—for example, online services? With Windows 95, millions of PC owners will be able to connect to your new Microsoft Network simply by clicking an icon.*
A: That's almost like BUSINESS WEEK coming out with a new magazine! [Laughs.] No, really, this has got to be investigated. I think these media companies get some advantage.

"Microsoft does get an advantage because of the risks we took in developing Windows. Just like any company that took risks and did well, we're entitled to the success that comes out of that"

We are a software company. Our job is to try to use whatever efficiencies we can to create new products that are attractive to consumers. There's a lot of integration in the world of technology that is done on behalf of the consumer.

Q: *In the process of adding these new features, though, you sometimes wind up giving away in the operating system things that rivals have to charge for. That's one reason critics say Microsoft should erect a "Chinese Wall" between its applications and systems businesses.*
A: We ship a product called Windows that gets richer and richer. It has always included application content. The Windows product is not just an operating system. Nor is there any fixed boundary. Is the graphics interface part of an operating system? Is integrated communications and E-mail part of an operating system? More and more, it is. The operating system keeps improving in order to keep this field growing. I don't even know what distinction you're trying to draw there.

Microsoft does get an advantage because of the risks we took in developing Windows. Just like any company that took risks and did well, we're entitled the success that comes out of that.

Q: *Reback, the lawyer represent some of your competitors, claims t because you agreed to stop certain pr tices in the consent decree, you are plicitly admitting to illegal practice*
A: The first thing to know about a c sent decree is that it involves absolu ly no admission of anything in any w So your question is, did we do so thing wrong? Absolutely not. Have at any time thought that we did a thing wrong? Absolutely not.

Q: *What do you think of the job d by investigators from the Federal Tr Commission and the Justice Dept.?*
A: A lot of government resources w put in, a lot of paper was reviewe lot of time was spent. It was certa thorough. It's quite novel that groups spent resources investiga this. I'm not aware of another case that. But they did their job. They the time to learn what was what. E crazy thing that anybody said abou was thoroughly looked into.

Q: *Now Judge Sporkin seems to that not everything was looked into, more needs to be explored.*
A: I don't understand. Sporkin do have that much data. There's not that wasn't explored.

Q: *What happens next?*
A: This [consent decree] will get tered or it won't get entered. But n while, we're doing exciting stuff, ward-looking stuff. Other companie as well. You really have to ask you why has this industry been so succe in the U.S.? Is this an industry w it's time to start getting the regul more involved? Is this market working? Is it moving forward, are coming down? Are consumers ge benefits from it? That's what shou ally be getting the visibility. Be this marketplace is moving ahead.

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May 11	New York City #1
May 18	Albany, NY
June 7	Frankfurt, Germany
June 15	Rochester, NY
June 22	Buffalo, NY
June 27	New York City #2
June 29	Jersey City, NJ
July 12	London, England
July 18	Stamford, CT
July 20	Boston, MA
July 25	Long Island, NY
July 26	New York City #3
July 27	Morristown, NJ
August 1	Syracuse, NY
August 3	Chicago, IL*
August 9	San Francisco, CA*
August 15	Paramus, NJ
September TBD	Mexico City
September 28	Atlanta, GA*
October 7	Championship New York City

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EDITED BY AMY DUNKIN

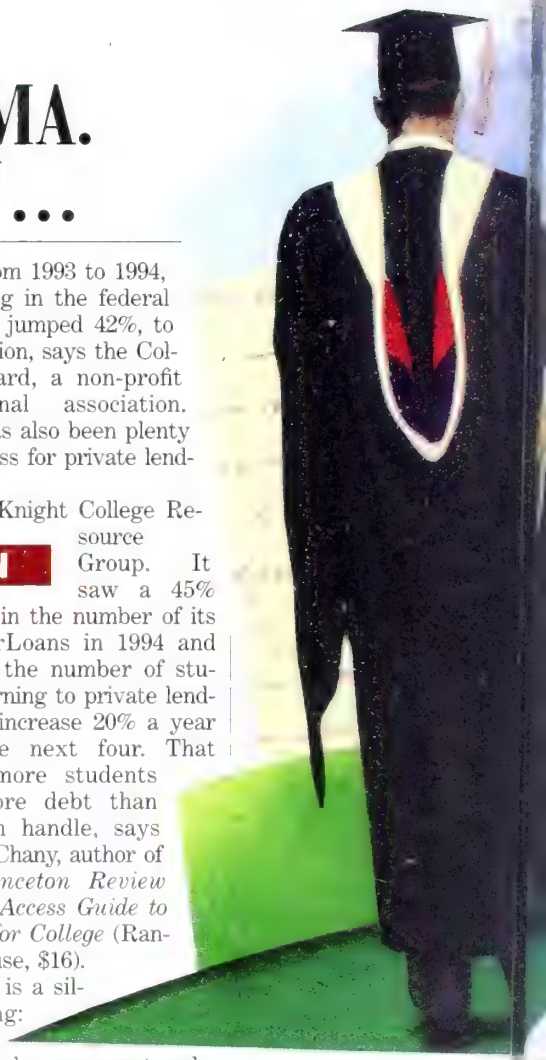
YOU'VE GOT THE DIPLOMA. NOW, ABOUT THAT LOAN...

For Mark Lubelsky of Bethpage, N.Y., landing a job after graduating from law school in 1992 was tough. But a year and a half ago, he started working for a small Long Island law firm, and now the 27-year-old enjoys his days in court developing a speciality in workers' rights.

As satisfied as he is with his career track, Lubelsky is in a bind. He borrowed more than $80,000 to attend Boston University School of Law and can't afford to pay his loans on his $35,000-a-year salary. If he made the standard payments, he would owe $1,100 a month—more than half his take-home wages. Instead, he's barely getting by, sending $500 a month to a private lender and delaying repayment of his federal loans for the additional year he's permitted. Meanwhile, interest is compounding, and his indebtedness has grown into six figures. "In hindsight, it was a big mistake to borrow that much," he says.

Managing student loans has become a financial planning puzzle—not just for heavily indebted recent graduates like Lubelsky but also for borrowers further along in their careers. The problem is intensifying because as tuition costs rise, students are taking on more debt. In 1992, the federal government increased loan limits and made unsubsidized federal loans more widely available. Thus, from 1993 to 1994, borrowing in the federal program jumped 42%, to $21.1 billion, says the College Board, a non-profit educational association. There has also been plenty of business for private lenders, such as Knight College Resource Group. It saw a 45% increase in the number of its AchieverLoans in 1994 and predicts the number of students turning to private lenders will increase 20% a year over the next four. That means more students with more debt than they can handle, says Kalman Chany, author of *The Princeton Review Student Access Guide to Paying for College* (Random House, $16).

EDUCATION



There is a silver lining: First the federal government and now some private lenders are making it easier to work out more favorable repayment terms. Last year, the Education Dept. created the Federal Direct Consolidation Loan Program (800 455-5889) that allows borrowers to combine loans from various sources and choose from a wide array of payback options, including a plan based on your income with terms as long as 25 years.

Of course, it's best—if at all possible—to stick to the standard schedule when your pay-up time arrives. Budget carefully, maintain a frugal lifestyle, and as you climb the career ladder, student debt will become little more than an administrative headache, says Mickey Levitan of Washington, D.C., who [illegible] patched $25,000 in busi[illegible] school loans in eight y[illegible] while working at the [illegible] The Children Federation [illegible]

THREE CARROTS. As an in[illegible] tive to stay on track, Stu[illegible] Loan Marketing Assn., [illegible] federally chartered corp[illegible] tion known as Sallie Mae [illegible] administers about a thi[illegible] all guaranteed student l[illegible] has created a rewards [illegible] gram. Make your first 48 [illegible] ments on time, and Sallie [illegible] (800 524-9100) reduces [illegible] interest charge by 2 per[illegible] age points. By paying the[illegible] 24 installments on the [illegible] interest, government-b[illegible] Stafford loans, you get [illegible] origination fee of at least [illegible] credited to your account. [illegible] if you use automatic ele[illegible]

Strategies for Paying Back Student Loans

LOWER PAYMENTS FOR THE FIRST FEW YEARS Sallie Mae lets you send in interest only in the first two to four years and still pay off your loan within the standard 10 years. With the Education Dept.'s graduated repayment, your monthly nut increases every two years over 12 to 30 years.

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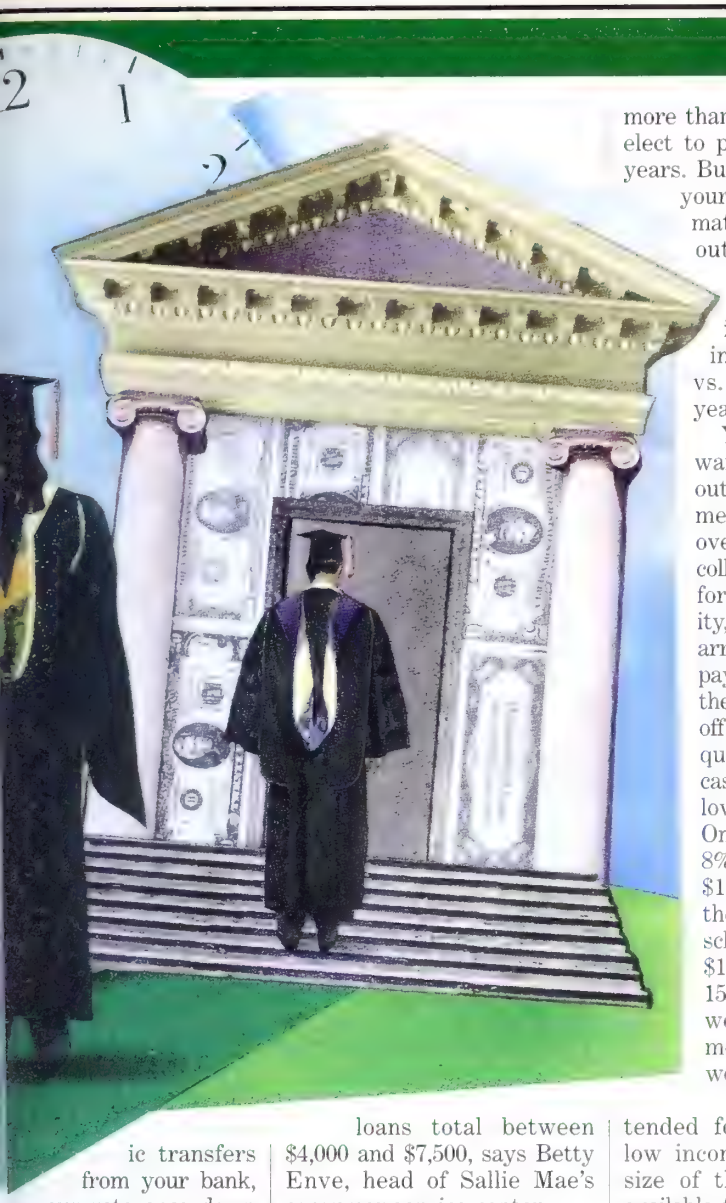
PAY A PERCENTAGE OF YOUR INCOME Sallie Mae's new income-sensitive repayment account allows borrowers to pay as little as 4% of their income as long as that covers the interest each month.

BE A PUNCTUAL PAYER Make your first 48 payments on time and Sallie Mae reduces the interest rate 2 percentage points. If you authorize electronic transfers, you get an additional quarter-point rate decrease.

REFINANCE WITH A HOME-EQUITY LOAN Interest on most student loans receives no tax preference. But home equity debt interest can usually be deducted.

DATA: BUSINESS WEEK



ic transfers from your bank, your rate goes down rter-point. These add up 1 $852 savings on a)0 loan over 10 years. oans are such a burden you are racking up ex- ve credit-card debt or g to participate in your any's 401(k) plan, you d negotiate for lower ents—even though that dd to the interest that s over the loan life, ad- Ross Levin, president credited Investors, a apolis financial planning The least expensive way ver the monthly allot- is to make graduated ents. Sallie Mae's Select option requires you to ff the loan in 10 years s you pay interest only first two to four years. lan makes sense if your loans total between $4,000 and $7,500, says Betty Enve, head of Sallie Mae's consumer-service center.

People with a larger balance will probably need to extend the repayment period to keep the monthly amount manageable. With the Federal Direct Graduated Repayment Option, payments increase every two years over 12 to 30 years, depending on the size of your loan. With Sallie Mae's Smart Loan consolidation plan, the length of the loan is determined by the balance owed. If you owe more than $60,000, you could elect to pay it back over 30 years. But this would add to your costs. Chany estimates if you stretched out $70,000 in loans over 30 years, you could end up paying about $115,000 in finance charges, vs. $50,500 after 15 years.

You certainly don't want to stretch payouts into your retirement or have them overlap your children's college costs. However, for maximum flexibility, "it makes sense to arrange for the lowest payment possible, with the intention of paying off the loan much more quickly when your cash flow situation allows it," Levin says. On a $10,000 loan at 8%, you would remit $121 a month under the standard 10-year schedule, for a total of $14,520. Extended to 15 years, the payment would drop to $96 a month but the total would rise to $17,204.

A new option, intended for graduates with low income relative to the size of their debt, became available from Sallie Mae this year and Federal Direct last year. These plans take your salary level into account. Sallie Mae lets you pay as little as 4% of your income as long as that covers the interest accrued each month. But the Federal Direct program will let you pay less than the interest that is accumulating, which means your debt will keep growing while you make payments—an option that should only be a last resort.

The silver lining: Lenders are making it easier to work out favorable terms

Before you consolidate, there are two caveats. If you plan on going back to school, check with your lender before you mix subsidized Stafford loans with unsubsidized loans. That may jeopardize your ability to stop interest from accumulating while you are in school. Also, the interest rate is usually the weighted average of your loans rounded up to the nearest whole number. If your average rate is 8.01%, you would be charged 9%, says Chany. In that case, you should leave out the highest-rate loan so your rate would be 8%. The Federal Direct rate is the same as for Stafford loans: a variable rate (now 7.43%) that can't exceed 8.25%.

RATE PLAYS. If you haven't consolidated your loans and can afford more than minimum payments, pay the smallest possible amount on the low-interest loans, while doubling up payments on the high-rate loans, says Mary K. Sullivan, a financial planner in Oakland, Calif. Polishing off loans one by one gives you motivation to keep going, she says.

Levin suggests homeowners dispense with student loans by using a home-equity line of credit. That way the interest usually would be tax-deductible. "But student loan debt often has lower interest rates than other types of debt," Levin says. So don't pay off an 8% student loan if you're carrying a $5,000 balance on an 18% credit card.

If you have very low-interest loans, you could hang on to them and invest some money. Sullivan advised one client with old 4% medical school loans not to pay them off early since she could earn more after tax by buying Treasuries and some stocks. Today's typical student borrower with 8% loans might try to pay them back faster. But even if you can't, with the new repayment options, at least you won't despair that you ever took out student loans at all. *Amey Stone*

HIGH TECH WITHOUT THE HIGH WIRE

If you want to capture a piece of the growth in technology stocks, you could buy into a sector mutual fund that specializes in such issues. But there's a way to make a high-tech play without the unsettling volatility of sector funds: Invest in a diversified equity fund with a large technology stake.

Either way, money managers say technology shares should be part of any growth portfolio over the next five years. Innovation is rampant, and many tech stocks are reasonably valued, such as Compaq, with a price-earnings ratio of 9, and Intel at 11, says Chip Morris, manager of T. Rowe Price Science & Technology Fund. The electronic content in everything from coffeemakers to automobiles is expanding. And from a global view, computers, telephones, and wireless communication are in their infancy, says Ron Elijah, manager of Robertson Stephens Value & Growth Fund.

BULKING UP? Because of the sector's success, all kinds of equity funds are beefing up their technology holdings. In 44 of the 50 top-returning diversified funds, tech issues make up more than 20% of the portfolio, according to Morningstar Inc. That's more than twice technology's 9% representation in the Standard & Poor's 500-stock index. Behemoth Fidelity Magellan has 32% of its $37 billion in assets in tech companies, vs. 5.7% in 1990. Other $1 billion-plus diversified funds with heavy tech holdings include Oppenheimer Main Street Income & Growth, AIM Constellation, and Twentieth Century Ultra Investors.

If tech lives up to its promise, that will be a boon to these funds. But risk-shy investors, such as those nearing retirement, should be aware that their funds may be bulking up on tech. "Most people are buying funds to be diversified and have fairly marketlike exposure," explains John Rekenthaler, editor of *Morningstar Mutual Funds*. "To end up with a quarter of one's assets in one sector is setting yourself up." It hasn't been a problem yet. Over the past five years, the .94 beta, which measures risk, for diversified equity funds hasn't changed, according to Morningstar. The S&P is slightly more volatile at a beta of 1.0.

SMART MONEY

Still, the advantage of owning a general fund is that the diversification tempers the rough gyrations of the tech stocks, which as a group can drop up to 10% in a month, says Harry Lange, manager of Fidelity's Select Computers, Electronics & Technology Fund. And if tech stocks head south, general-fund managers can switch assets to a less risky, more prosperous arena.

But that flexibility means that strong-stomached investors can't control their own exposure. "If you want 20% of your money in technology for the next 20 years, the only way to do that is with a tech fund," argues Glenn Fogle, manager of Twentieth Century Vista Investors, a general fund with 53% of assets in technology.

Sector-fund managers who trade exclusively in technology also know more about the industry. Paul Wick, manager of Seligman Communications & Information, says that general funds got hurt when IBM, DEC, and Wang fell in recent years. But many tech funds avoided that fate, "because the managers are much more attu[illegible] to changes in the comp[illegible] market." And despite peri[illegible]ic free falls, tech funds h[illegible] averaged an annual 16.1[illegible] gain since 1990, vs. 10.7[illegible] for general funds.

HEAD FOR CASH. Sector fu[illegible] can't escape into other in[illegible]tries when trouble looms. [illegible] they have strategies to t[illegible] per volati[illegible] Seligman log[illegible] a 21% average annual ret[illegible] for 10 years by switching f[illegible] media stocks in the 1980[illegible] mostly semiconductor st[illegible] in the '90s. T. Rowe Price [illegible]ence & Technology F[illegible] spreads the risk among [illegible] kinds of tech stocks, with[illegible] more than 5% of assets in [illegible] one company. Merrill Ly[illegible] Technology will plow u[illegible] 25% of assets into one [illegible]pany, take profits, and [illegible] for cash to protect its gai[illegible]

Whatever your risk t[illegible]ance, it makes sense t[illegible]vestigate how much and [illegible] type of technology st[illegible] your fund holds. Look [illegible] yearend reports and pros[illegible]tuses, and get familiar i[illegible] some of the bigger [illegible] names, such as Motorola, [illegible]tel, and Seagate Technol[illegible]

Technology is such a[illegible] sector, most equity-fun[illegible]vestors should have expo[illegible] to it. Given its volatility, [illegible] question is: How big a [illegible] can you stand? *Pam E[illegible]*

Loading up on Technology

FUND	ASSETS (MILLIONS)	% ASSETS IN TECH STOCKS	3-YR. AVG. ANNUAL RET.
FIDELITY MAGELLAN	$36,091	32%	11.3%
BRANDYWINE	2,299	49	14.0
OPPENHEIMER MAIN ST. INCOME & GROWTH	1,348	24	20.5
ROBERTSON STEPHENS VALUE & GROWTH	163	68	23.0

DATA: MORNINGSTAR INC

WORTH NOTIN[illegible]

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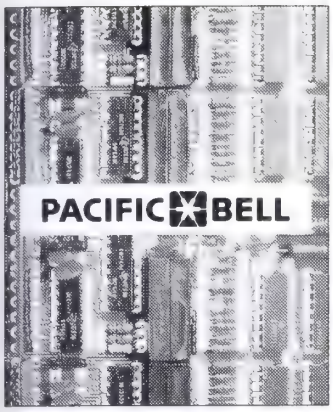

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Mother nature, global recession and the "peace dividend" have challenged California's economy like never before. But it's going to take a lot more than that to take the shine off the golden state.

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California

STILL THE GOLDEN STATE

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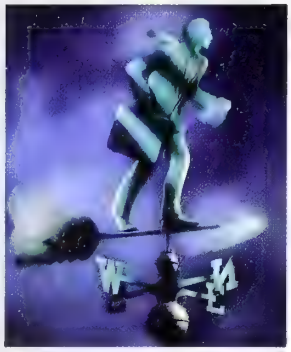

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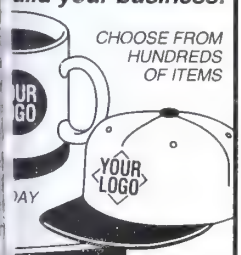

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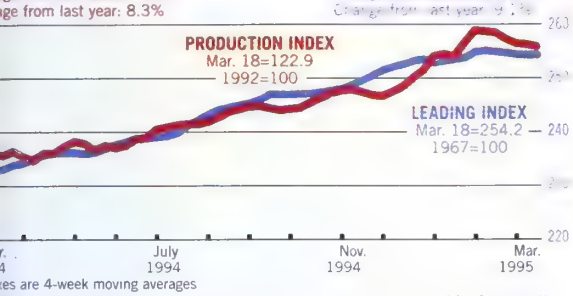
usiness Week Index

DUCTION AND LEADING INDEXES

ge from last week: –0.2%
ge from last year: 8.3%



es are 4-week moving averages

oduction index fell slightly during the week ended Mar. 18. Seasonally ed output levels of autos and trucks led the decline. Before calculation four-week moving average, the index fell to 122.3, from 122.9 in the us week.

ading index was unchanged in the latest week. The unaveraged index up to 254.6, from 253.6, thanks to the rallies in the stock and bond es.

uction index copyright 1994 by McGraw-Hill Inc BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (3/25) thous. of net tons	2,036	2,082#	8.5
AUTOS (3/25) units	150,923	139,976r#	2.6
TRUCKS (3/25) units	121,600	119,719r#	–4.6
ELECTRIC POWER (3/25) millions of kilowatt-hrs.	55,091	54,412#	1.2
CRUDE-OIL REFINING (3/25) thous. of bbl./day	13,402	13,400#	5.4
COAL (3/18) thous. of net tons	21,258#	20,320	–5.7
PAPERBOARD (3/18) thous. of tons	922.6#	898.1r	5.7
PAPER (3/18) thous. of tons	842.0#	832.0r	2.3
LUMBER (3/18) millions of ft.	446.6#	452.8	–10.0
RAIL FREIGHT (3/18) billions of ton-miles	24.1#	23.2	1.3

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

DING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
K PRICES (3/24) S&P 500	496.76	493.15	6.6
ORATE BOND YIELD, Aaa (3/24)	8.10%	8.04%	8.1
STRIAL MATERIALS PRICES (3/24)	114.3	114.0	NA*
IESS FAILURES (3/17)	NA	318	NA
ESTATE LOANS (3/15) billions	$468.5	$468.1	10.8
Y SUPPLY, M2 (3/13) billions	$3,590.1	$3,583.1	1.2
AL CLAIMS, UNEMPLOYMENT (3/11) thous.	343	338	–0.6

es: Center for International Business Cycle Research (CIBCR), Standard & Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures e companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ss failures and real estate loans. *Historical data available from CIBCR.

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (3/29) $/troy oz.	383.000	382.250	–1.5
STEEL SCRAP (3/28) #1 heavy, $/ton	137.50	137.50	–1.4
COPPER (3/25) ¢/lb.	145.2	143.7	52.9
ALUMINUM (3/25) ¢/lb.	87.0	88.5	37.4
COTTON (3/25) strict low middling 1-1/16 in., ¢/lb.	104.69	108.62	44.9
OIL (3/28) $/bbl.	18.93	18.43	31.5

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

EREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
IAL FUNDS (3/28)	6.10%	5.97%	3.49%
ERCIAL PAPER (3/29) 3-month	6.15	6.14	3.88
FICATES OF DEPOSIT (3/29) 3-month	6.17	6.12	3.84
MORTGAGE (3/24) 30-year	8.63	8.62	7.90
TABLE MORTGAGE (3/24) one-year	6.40	6.55	4.68
(3/29)	9.00	9.00	6.25

s: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (3/29)	88.25	88.84	102.63
GERMAN MARK (3/29)	1.38	1.40	1.67
BRITISH POUND (3/29)	1.61	1.59	1.49
FRENCH FRANC (3/29)	4.87	4.98	5.70
ITALIAN LIRA (3/29)	1705.5	1714.5	1607.5
CANADIAN DOLLAR (3/29)	1.40	1.40	1.38
MEXICAN PESO (3/29)[3]	6.795	7.210	3.357

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

lata in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense nt. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

HE WEEK AHEAD

SURVEY

, Apr. 3, 10 a.m. ▶ The National tion of Purchasing Management's s activity index probably fell to in March, from 54.5% in February. he median forecast of economists d by MMS International, a unit of -Hill Inc. Analysts will want to see the NAPM's price index fell for the raight month. From May to December index surged as purchasers reporting higher prices for materials.

RUCTION SPENDING

, Apr. 4, 8:30 a.m. ▶ Construction g probably fell by 0.5% in February, ping 0.2% in January. The decline is suggested by a 2.6% drop in housing starts in February.

LEADING INDICATORS

Wednesday, Apr. 5, 8:30 a.m. ▶ The government's composite index of leading indicators probably slipped a small 0.1% in February, forecast the MMS economists. Over the past five months, the index has barely moved from month to month. In January, it was unchanged from December.

EMPLOYMENT

Friday, Apr. 7, 8:30 a.m. ▶ The MMS survey forecasts that nonfarm payrolls grew by 210,000 jobs in March, after 318,000 were created in February. However, the growth in factory jobs is expected to continue to slow. The median forecast calls for a rise of just 20,000 factory jobs last month, down from 27,000 slots in February and 44,000 new hires in January. The March unemployment rate probably rose to 5.5%, from 5.4% in February.

INSTALLMENT CREDIT

Friday, Apr. 7 ▶ Consumers probably added a modest $6.5 billion in new debt in February. A month ago, the Federal Reserve originally said that credit rose just $3.7 billion in January. But after correcting an error in the miscellaneous debt category, the Fed revised the January number to a larger rise of $7.6 billion.

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Business Week presents live conferences with editors and newsmakers. It's your opportunity to ask questions about features from the magazine.

BusinessWeek ONLINE

Sunday

Japan's New Identity, with BW Tokyo Bureau Chief Robert Neff and BW Asia Editor Bruce Einhorn discussing the Cover Story—about Japan hitching its future to Asia and decrying its past subservience to the U.S. **Apr. 2**
9 p.m. EST in the Globe

Monday

Author and Internet user Clifford Stoll. His new book, *Silicon Snake Oil*, warns of where the Information Highway may lead society. **Apr. 3**
8 p.m. EST in the Coliseum

Thursday

Gary Hamel, co-author of *Competing for the Future: Breakthrough Strategies for Seizing Control of Your Industry and Creating the Markets of Tomorrow.* **Apr. 6**
9 p.m. EST in the Bowl

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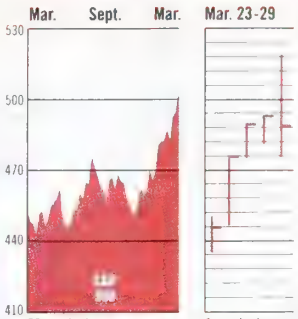
vestment Figures of the Week

ENTARY

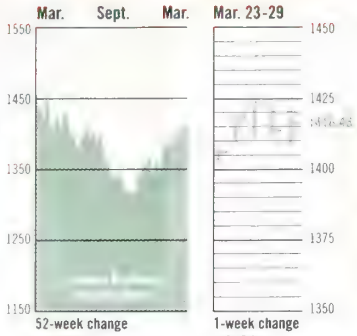
es about the dollar? Cer- ot the stock market. The ustrials continue to push ord territory. Ditto for the st market mavens, howev- getting real nervous as the ves toward the 4200 especially since the index % over the last three But don't sell the U.S. short just yet. It has beaten major foreign bourses this nds down. And as the tech- dicators on this page show, ave still more to go.

STOCKS



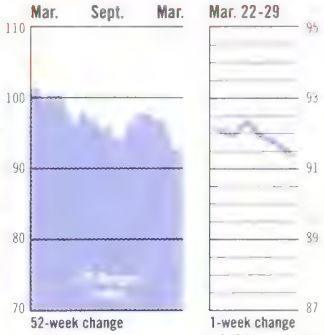
52-week change +12.9%
1-week change +1.5%

BONDS



52-week change -2.5%
1-week change +0.9%

THE DOLLAR



52-week change -9.0%
1-week change -0.8%

RKET ANALYSIS

OCKS	Latest	% change Week	% change 52-week
NES INDUSTRIALS	4160.8	1.9	14.7
COMPANIES (S&P MidCap Index)	182.2	1.4	5.9
OMPANIES (Russell 2000)	259.9	1.2	3.0
IPANIES (Russell 3000)	286.4	1.5	10.9

N STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
(FINANCIAL TIMES 100)	3142.3	0.1	1.6
NIKKEI INDEX)	16,460.7	3.5	-15.8
) (TSE COMPOSITE)	4299.0	0.8	-0.3

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.80%	5.85%	3.56%
30-YEAR TREASURY BOND YIELD	7.37%	7.45%	7.11%
S&P 500 DIVIDEND YIELD	2.61%	2.65%	2.89%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.5	20.2

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	465.9	464.8	Positive
Stocks above 200-day moving average	57.0%	53.0%	Neutral
Speculative sentiment: Put/call ratio	0.71	0.72r	Positive
Insider sentiment: Vickers sell/buy ratio	1.00	0.94	Positive

BLOOMBERG FINANCIAL MARKETS

USTRY GROUPS

EEK LEADERS	% change 4-week	% change 52-week	Strongest stock in group	% change 4-week	% change 52-week	Price
IALTY APPAREL RETAILERS	13.3	-19.7	THE LIMITED	24.7	0.6	22 1/8
MINING	11.5	-13.5	NEWMONT MINING	14.9	-12.3	41 3/8
CAL PRODUCTS AND SUPPLIES	11.4	41.0	BOSTON SCIENTIFIC	21.1	83.2	25 7/8
	11.3	7.0	UNITED HEALTHCARE	13.4	3.5	48 5/8
IUNICATIONS EQUIPMENT	11.2	30.1	M/A-COM	48.2	45.5	10

EEK LAGGARDS	% change 4-week	% change 52-week	Weakest stock in group	% change 4-week	% change 52-week	Price
KING	-7.6	-27.3	YELLOW	-22.0	-39.1	16 3/8
BUILDING	-6.6	-31.6	KAUFMAN & BROAD HOME	-19.8	-47.5	11 5/8
	-5.2	-15.9	INLAND STEEL INDUSTRIES	-14.0	-25.2	25 1/4
R CONTAINERS	-4.4	18.8	STONE CONTAINER	-10.4	55.0	21 1/2
RIC COMPANIES	-3.5	-7.5	ENTERGY	-8.9	-35.9	20 1/2

UAL FUNDS

MORNINGSTAR INC.

S

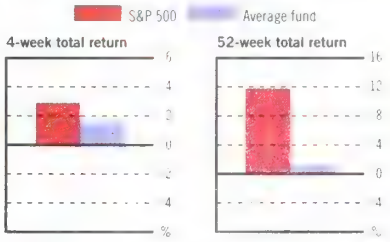
k total return	%
TY SELECT ELECTRONICS	14.4
MIDAS GOLD	11.0
TY SELECT COMPUTERS	10.4

total return	%
TY SELECT HEALTH CARE	40.7
MAN COMMUNICATIONS & INFORM. A	39.6
T SMALLER COMPANIES	37.8

LAGGARDS

Four-week total return	%
WARBURG PINCUS JAPAN OTC COMM.	-15.0
WRIGHT EQUIFUND-MEXICO NATL. FID. EQTY.	-10.1
MORGAN STANLEY LATIN AMERICAN B	-7.5

52-week total return	%
MONITREND GOLD	-51.1
HERCULES LATIN AMERICAN VALUE	-43.2
BT INVESTMENT LATIN AMERICAN EQUITY	-42.9



TIVE PORTFOLIOS

ORI/McGRAW-HILL

ounts represent the alue of $10,000 one year ago ortfolio

ges indicate total returns

U.S. stocks	Foreign stocks	Money market fund	Treasury bonds	Gold
$11,461	$11,005	$10,512	$10,118	$9,807
+1.78%	+1.89%	+0.21%	+0.37%	-0.13%

this page are as of market close Wednesday, March 29, 1995, unless otherwise in- dustry groups include S&P 500 companies only; performance and share prices are as of market close March 28. Mutual fund returns are as of March 24. Relative portfolios are val- ued as of March 28. A more detailed explanation of this page is available on request. r=revised

WHAT JAPAN'S ASIA TILT MEANS

When Commodore Perry's black ships steamed into Yokohama in 1852, ending centuries of Japanese isolation, the country's elite adopted the slogan *Datsu-ah, ny-o*, or "leave Asia, enter the West." Today, 143 years later, a growing number of Japan's leaders are voicing another slogan: *Datsu-o, nyu-ah*, or "leave the West, enter Asia." It is the beginning of a historic shift, and it would be wise for Washington to take a moment out from its wrangling over domestic policy to cast a watchful eye east (page 108).

Already, there are signs of danger. Japanese negotiators are taking an in-your-face approach to the upcoming auto talks with the U.S., and the American side is shocked at their rudeness. Japanese investors are pulling back from U.S. stocks, bonds, and real estate. Japanese business and government leaders increasingly deride Western culture and boast of having "Asian values," such as discipline, devotion to the family, and primacy of the group over the individual. Politicians quietly side with Asian regimes against the U.S. over human rights, while bureaucrats help build mercantile economies in Japan's image.

But most of all, the Japanese are shifting their investments. In a mammoth swing away from the U.S., Japanese direct investment is pouring into China, Indonesia, Thailand, and other Asian countries. At $64 billion, it is three times that of the U.S. and growing. Increasingly, Japanese companies export from the Four Tigers and China, escaping the costs of a high yen.

None of this is accidental. Japan's Asia-first gambit is the logical outgrowth of the country's adamant refusal to deregulate and transform itself into a Western-style consumerist society that imports as much as it exports. Despite incessant prodding by the U.S., Japan remains a producer-dominated cult Powerful corporate and bureaucratic elites are bent on gai global market share and are using Asian partners both as port platforms and markets for Japanese goods. The super is the result. Had Japan's reformists succeeded in deregula the economy, the yen might be 180 instead of 88.

Where will Japan's Asia tilt lead? For Asia, it means g er investment and growth, but at a price. Unlike NAFTA, w is a dollar bloc, and Eastern Europe, which is a German r bloc, Japan's new sphere of influence is not a yen bloc. C Indonesia, and Malaysia are borrowing enormous sums in but their exports are not going to Japan, they're going t U.S. Hence, they must pay off their appreciating yen debt depreciating dollars. It's a ticking financial time bomb.

For the U.S., Japan's Asia tilt means the end to meani bilateral negotiations to open Japan's economy. The U.S. h choice now, if it is serious about cutting its trade deficit, b focus on its own domestic market. Washington should con ending all free-trade zones in Ohio, Kentucky, and Tennesse Japanese car companies that allow them to import fo components virtually duty-free. It must then insist they bu mestically made parts, which are cheaper anyway.

Japan is not the only country shifting gears in the pos war era. The U.S., after all, is edging away from Eu But Japan's tilt has disquieting resonances for Asians as w Americans. This is the second time in the 20th century some Japanese elites have promoted a pro-Asian, anti-We identity for their nation. The first, sadly, was carried to Surely the Japanese are wise enough to learn from hist

NET PORN: LET PARENTS DO THE POLICING

Cybersmut. Denizens of the Internet know there's plenty of it online, some of it tame, some of it degrading and disgusting. Cyberspace knows no geographical bounds, so Net cognoscenti can tap into hard-core images from anywhere, watching pictures that approach snuff movies in their grotesquerie.

Enter the children, probably the most computer-literate group in America. Comfortable with the technology, having grown up with it, kids prowl the Net, finding easy access to all kinds of hard-core porn.

Senator J. James Exon (D-Neb.) wants to censor the Net to protect kids. His Communications Decency Act, an amendment to an omnibus telecom reform bill, would make it a crime to transmit "obscene, lewd, lascivious, or indecent" images over the Net. Good intentions notwithstanding, Exon's bill is the wrong solution. Parental, not governmental, supervision is the answer. It's impossible to control tens of thousands of interconnected networks with information flowing among 30 million computers. It is not impossible for fathers and mothers to monitor what their kids do in front of their computers just as they monitor their TV vie

Here's the solution. The three major online services, ica Online, CompuServe, and Prodigy, all have parental-c devices that restrict access, especially to chat rooms. should use them. Parents can restrict kids from receivi stant messages and from conducting one-to-one chats in p rooms.

There's no way to stop the flow of pictures being j back and forth as E-mail, but children who do not have own screen names must first get Mom or Dad to get th line. Finally, cutting back on direct access to the In means curbing the raunchiest stuff. Don't give your kids arate Internet account. Let them come to you.

The Net is already aflame with organized efforts to st government censorship. But libertarian principles, v though they may be, do not provide sufficient answers problems associated with pornography and children. The question that supervision is needed, but it should com parents, not government acting in loco parentis.

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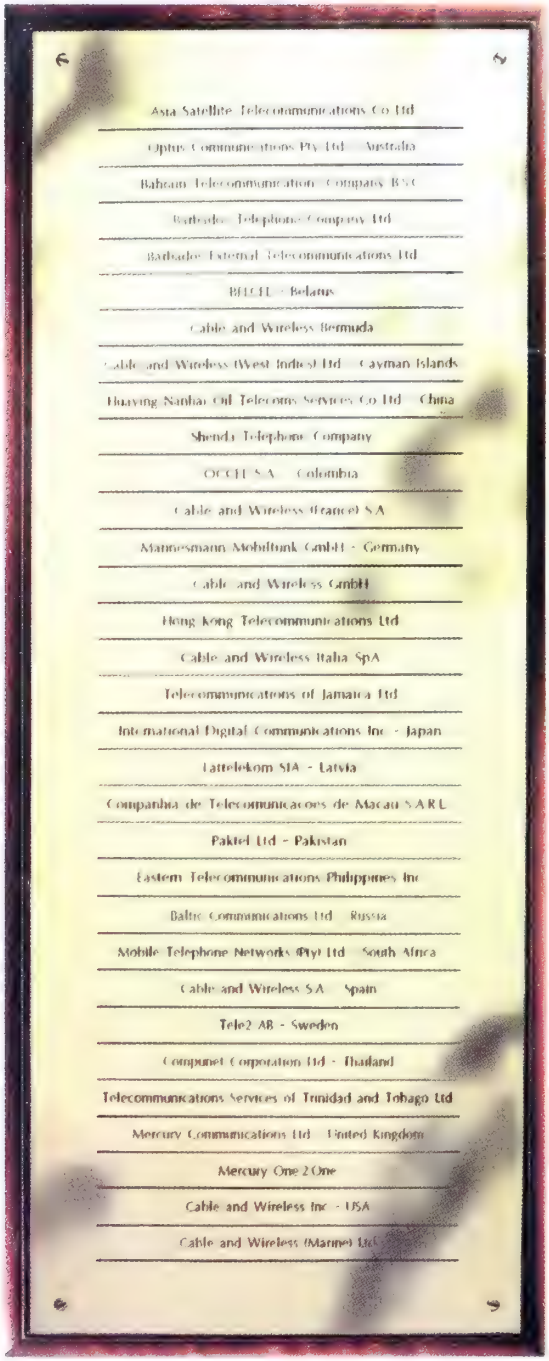

Asia Satellite Telecommunications Co Ltd

Optus Communications Pty Ltd - Australia

Bahrain Telecommunication Company B.S.C

Barbados Telephone Company Ltd

Barbados External Telecommunications Ltd

BELCEL - Belarus

Cable and Wireless Bermuda

Cable and Wireless (West Indies) Ltd - Cayman Islands

Huaying Nanhai Oil Telecoms Services Co Ltd - China

Shenda Telephone Company

OCCH S.A. - Colombia

Cable and Wireless (France) S.A

Mannesmann Mobilfunk GmbH - Germany

Cable and Wireless GmbH

Hong Kong Telecommunications Ltd

Cable and Wireless Italia SpA

Telecommunications of Jamaica Ltd

International Digital Communications Inc - Japan

Lattelekom SIA - Latvia

Companhia de Telecomunicacoes de Macau S.A.R.L

Paktel Ltd - Pakistan

Eastern Telecommunications Philippines Inc

Baltic Communications Ltd - Russia

Mobile Telephone Networks (Pty) Ltd - South Africa

Cable and Wireless S.A. - Spain

Tele2 AB - Sweden

Computnet Corporation Ltd - Thailand

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Enrollments are soaring, and money is tight.

WILL SCHOOLS EVER GET BETTER?

Why there is still hope.

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IN MILWAUKEE, THE PUBLIC SCHOOLS ARE REFORMING THEMSELVES

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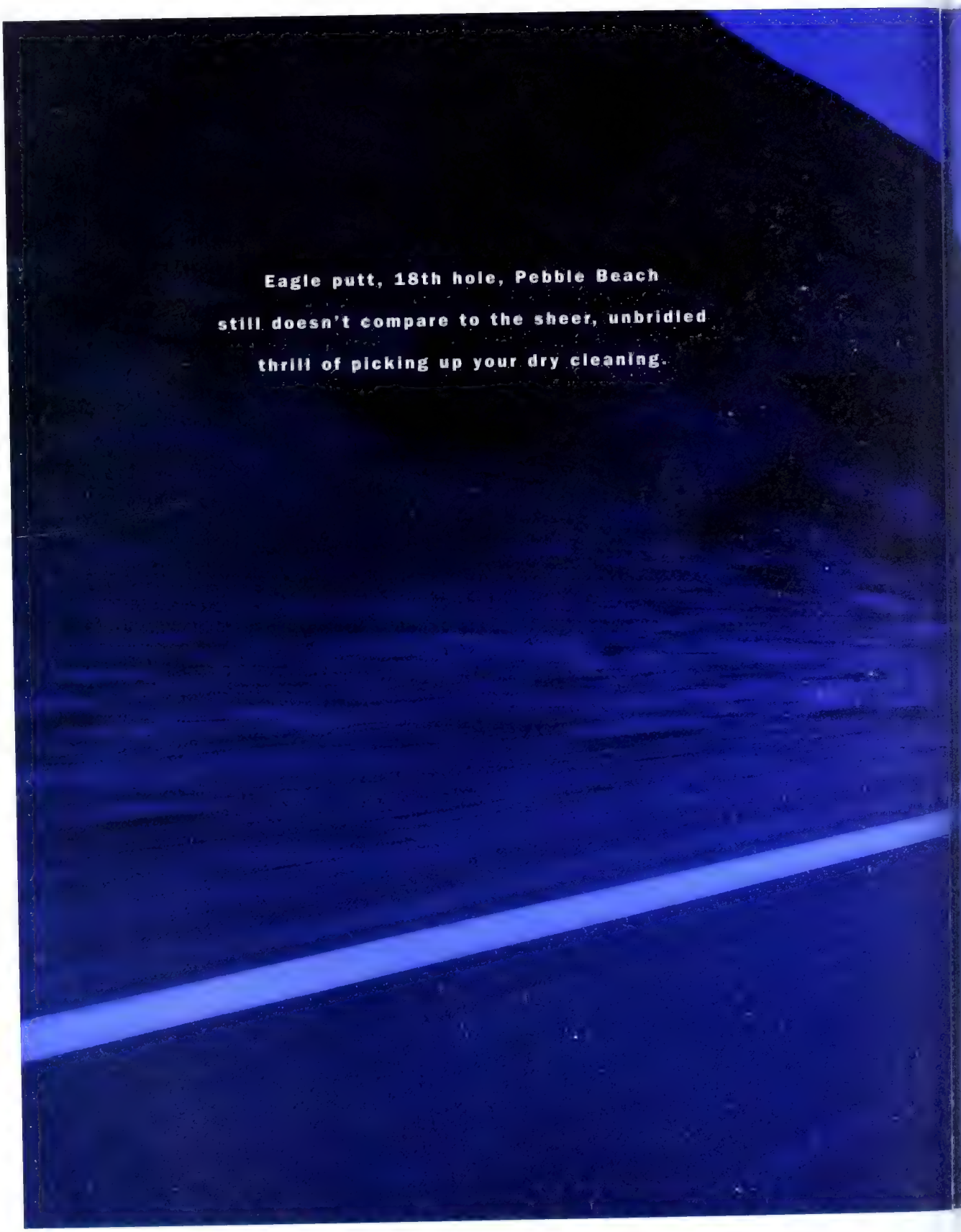

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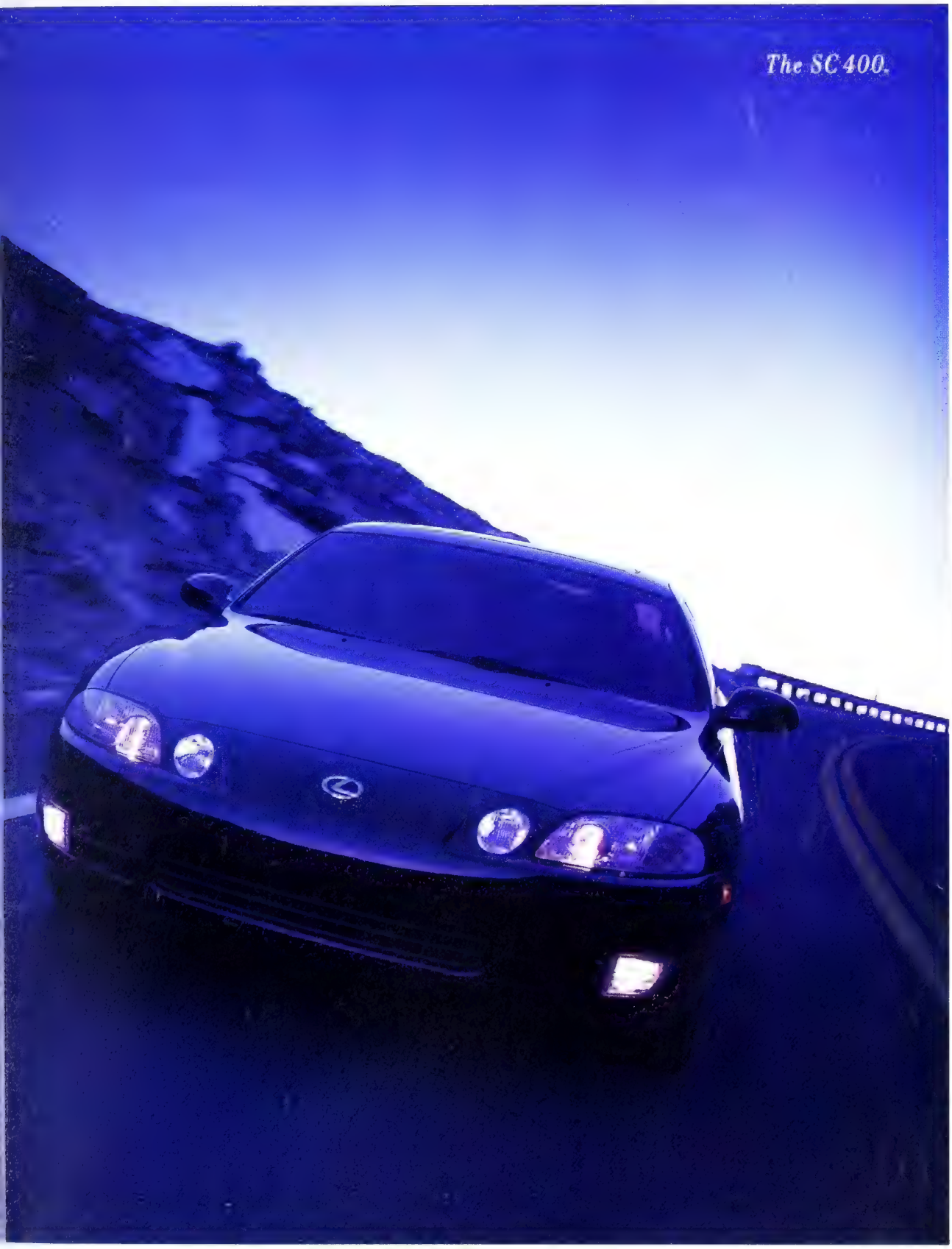

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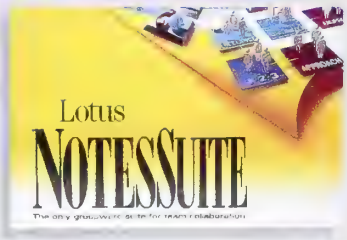

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COVER STORY

SCHOOL DAZE

Jammed classes. Tight budgets. Bureaucracy. U.S. schools are in a sorry state, but there's hope–as Milwaukee's Howard Fuller has shown page 64

BusinessWeek
APRIL 17, 1995

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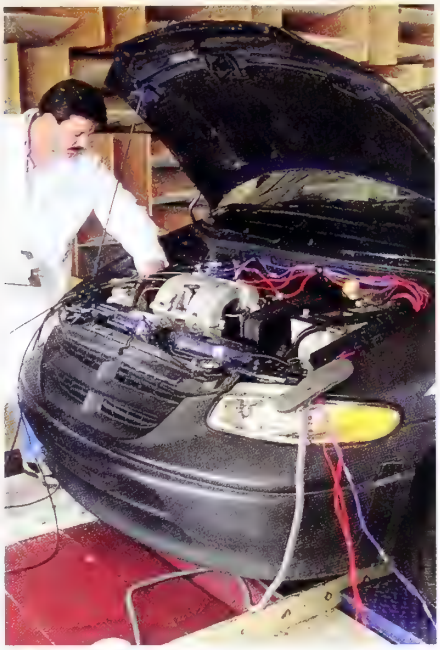

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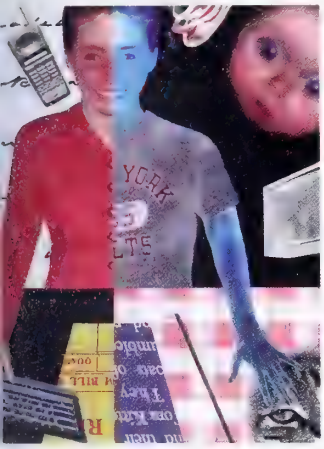

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

TALK SHOW "I have been there, done that, and it is not m intent to do what I've already done."

— Craig McCaw, announcing a $1.1 billion investment in Nextel, helping it to focus on radio dispatch instead of cellular

FAT WALLETS

A SMALL TOKEN OF RJR'S ESTEEM

RJR NABISCO HAS DONE CEO Charles Harper a double favor: It bought him an annuity, principal undisclosed, estimated at around $11 million by BUSINESS WEEK. And since that's a taxable gift, RJR also covered the $5.5 million tab for Uncle Sam. Overall, Harper, 67, bagged $10.5 million in cash and bonus pay for 1994, not counting the annuity and his regular future pension payout of $1 million.

HARPER: *$16.5 million man*

Compensation consultants say the RJR annuity tax payment, disclosed in the latest proxy, is unusual. More often, companies set up an in-house retirement fund, which is taxable only when the exec dips into it. The risk: The fund might be axed if the beneficiary is fired. By contrast, Harper owns his annuity. Predecessor Louis Gerstner, now IBM's head, had the same deal, RJR says.

Since the $5.5 million tax tab RJR paid is counted as income, Harper presumably must pay taxes on it. RJR wouldn't comment on this. Still, that's a lower bill than on the $11 million annuity. One of the few with the same setup: just-retired CEO William Alley of American Brands, which paid $4.7 million in taxes over the past two years for his retirement fund. □

TRADING PLACES

PUTTING PESOS BACK IN THE PITS

COULD FUTURES CONTRACTS help smooth out the wild swings in the peso? The Chicago Mercantile Exchange is about to find out. On Apr. 25, pit traders will likely add the peso to the seven other currency futures contracts offered on the Merc.

The move will probably be welcomed by corporations and others who have been whipsawed by the market since December, when Mexican officials stopped propping up their currency. A futures contract enables an exporter due to be paid in pesos in three months to hedge against a sharp drop in the peso. Hedging theoretically diminishes panic buying and selling in the cash currency market. "The futures market is an essential complement to a floating peso," says one Mexican official, Francisco Gil Díaz, a deputy governor at the Bank of Mexico.

CURRENCY FUTURES

Contracts traded, daily avg., Jan.–Mar.

D MARK	56,006
YEN	44,158
SWISS FRANC	28,205
PESO	1,000–5,000*

Est. initial volume, April

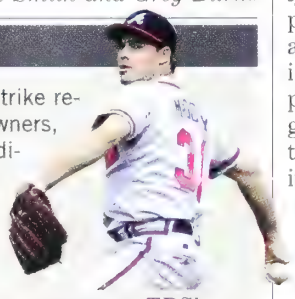
DATA CHICAGO MERCANTILE EXCHANGE BUSINESS WEEK

Initial trading is expected to be light—no more than 5,000 contracts daily. That's a far cry from trading in the Big Three: yen, German marks, and Swiss francs. But it's significant that the Merc is going ahead at all. The Merc abandoned trading in peso futures in 1985. One factor: Mexican officials felt the trading was hurting, rather than helping, their peso policies.

Geri Smith and Greg Burns

THE LIST JOCK MARKET

Sports, as the now-ending baseball strike reminds us, is a business. For many owners, a sports franchise is a key part of a diversified company. Most corporate owners are media-entertainment outfits. So Greg Maddux' pitching prowess for the Atlanta Braves—owned by Turner Broadcasting—is fodder for the Turner-owned TBS SuperStation. The latest addition to the corporate roster: Disney's Mighty Ducks of Anaheim in 1993. Today, satellite-service provider COMSAT, which is expanding into entertainment and owns the Denver Nuggets, is in the market for a hockey franchise.



MADDUX: *TBS' golden arm*

CORPORATE-OWNED SPORTS TEAMS

100% owners of professional teams

COMPANY	PRIMARY BUSINESS	TEAM	SPORT
ACKERLEY	*Broadcasting*	Seattle Supersonics	Basketball
ANHEUSER-BUSCH	*Beer*	St. Louis Cardinals	Baseball
COMSAT	*Satellites*	Denver Nuggets	Basketball
MOLSON	*Beer*	Montreal Canadiens	Hockey
TRIBUNE	*Newspapers*	Chicago Cubs	Baseball
TURNER	*Broadcasting*	Atlanta Braves	Baseball
VIACOM	*Broadcasting*	Florida Panthers	Hockey
WALT DISNEY	*Films*	Anaheim Mighty Ducks	Hockey

DATA HOULIHAN LOKEY HOWARD & ZUKIN

RULES & REGS

A RAW DEAL FOR MEAT PACKERS?

THE MEAT INDUSTRY tussling with the feds ov the best way to root out co tamination. The backdro public fear over food poiso ing, such as the 1993 outbre at Jack in the Box resta rants that left two custome dead. At issue: The Clint Administration wants the i dustry to fork over $106 m

BIG BEEF: *In the abattoir*

lion yearly to help pay for t 9,000 inspectors who curre ly are on the governme payroll—at no cost to me and poultry processors. T industry is balking at t proposal, saying it's not good use of money becau the inspectors can't spot so impurities visually.

The industry puts mo faith in new microbial testi technology, coming onli over the next three years gizmos the Agriculture De strongly endorses. Eager calm public concerns, the me packers are even willing pick up the $734 million t for the devices and other n plant-cleanliness procedure

But the industry resis underwriting the USDA spectors, a question that lil ly will come before Congre this year. Says Sara Clar spokeswoman for the Ame can Meat Institute, rep senting meat processo "Don't make us pay for a nosaur program." The USI though, argues that the spectors will still be need to validate the high-te tests. *Mary Beth Reg*

There are tons of reasons to own the new Canofile 510.

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Canon

Up Front

JUNKETS

DRUGMAKERS HEAD BACK TO THE SUN

IT'S BACK TO FUN IN THE sun for drugmakers. Last year, with the Clinton White House talking about cracking down on drug price hikes, the Pharmaceutical Research & Manufacturers of America (PHRMA) abandoned such tony resorts as Boca Raton, Fla., and Scottsdale, Ariz., to hold its annual meeting in Washington. They wanted to project a more business-like image while in the thick of the health-care-reform debate.

Well, friendly Republicans rule Congress now, and health-care reform is dead. So PHRMA has New York's Plaza Hotel slated for '96 and a return to Boca in '97. Washington didn't save the group money. And this year's capital confab drew only 175 paying people, where some 300 might come to Florida. "Much as I love D.C.," says PHRMA President Gerald Mossinghoff, "it's not Boca in the early spring."

A sign of the new mood: At the recent meeting, a SmithKline Beecham executive got big laughs during his slide presentation by showing a shredded picture of Hillary Rodham Clinton. *Joseph Weber*

PAPER PLAYS

DOING WELL BY DOING GOOD

DOES THE STEELY-EYED stock market appreciate companies with good affirmative-action records? Yes, says a new study tracking 34 publicly traded companies that were awarded the U.S. Labor Dept.'s Exemplary Voluntary Effort Award. Each one's stock price enjoyed an uptick the day after the award was announced.

True, these hikes only ranged from ¼ to ⅞. But they were statistically significant, says the study in *Academy of Management Journal*. The awards studied, from 1986 through 1992, were given during all kinds of markets.

One of the four researchers, University of Memphis Professor Peter Wright, thinks that Wall Street rewards companies able to attract and maintain diverse workforces, since minority employees will be an increasing presence. Hugh Johnson, chief investment officer at First Albany, speculates that stock traders may have concluded that socially conscious institutional investors, such as churches, would view the awards as a buy sign. Another possibility: It's seen as unlikely the winning company will face some costly federal mandate over employment practices. And absent any other news, good news often boosts a stock.

Affirmative Market Action

Stock uptick after news of U.S. Labor Dept.'s awards for affirmative action

	OPENING PRICE	CLOSING PRICE	INCREASE
PFIZER	79¼	80¼	½
Awarded Sept. 17, 1992			
TENNECO	38¼	38⅜	⅛
Awarded Sept. 19, 1991			
WESTINGHOUSE	25	25⅛	⅛
Awarded Oct. 23, 1990			

DATA: ACADEMY OF MANAGEMENT JOURNAL, BLOOMBERG FINANCIAL MARKETS

DRAWN & QUARTERED

CAPITAL OFFENSES

VOLUNTARY TERM LIMITS? YOU FIRST

A GENERATION GAP OF SORTS has opened up between House Republicans over term limits. Now that the constitutional amendment on the issue has met defeat, nine rookie and second-term House members are pushing for voluntary term limits. They are willing to vow they will leave Capitol Hill after six terms (12 years). The group, led by Republicans Bob Franks of New Jersey and Stephen Largent of Oklahoma, is challenging other lawmakers—Republicans and Democrats—to follow suit.

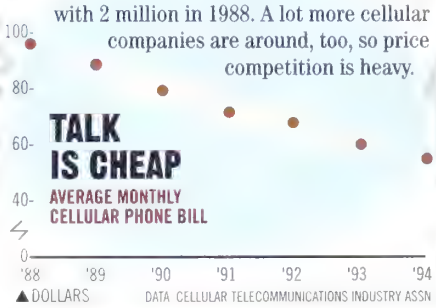
BOEHNER: *Don't comfort the foe*

Guess what? They have found no takers among Republican leaders, including House Speaker Newt Gingrich (R-Ga.), now serving his ninth term, and House Majority Leader Richard Armey (R-Tex.), a six-termer. Could it be the Old Guard smells a plot by the Young Turks to move up the leadership ladder faster if the senior members move aside?

The GOP's Old Guard has its own rationale for opposing purely voluntary term limits. Four-term Representative John Boehner of Ohio, the fourth-ranking House Republican, explains that top Republicans would be foolish to agree to what is essentially political suicide unless the folks on the other side of the aisle do the same. Says Boehner: "I have never believed in unilateral disarmament." *Richard S. Dunham*

THE BIG PICTURE

Making cellular calls is getting cheaper, down 43% since 1988. One reason: There are a lot more customers, 24 million now, compared with 2 million in 1988. A lot more cellular companies are around, too, so price competition is heavy.



FOOTNOTES Laid-off executives' average former salary, vs. new pay: men, $80,000, vs. $75,000; women, $63,000, vs. $60,0

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Readers Report

PROFESSIONALISM AND THE CFTC

I am writing in response to your article regarding the reorganization of the regional offices of the Commodity Futures Trading Commission ("The watchdog who barked at Hillary," News: Analysis & Commentary, Mar. 27). I am disappointed that although I had several conversations with your reporter, the article contained misleading information, distortions, and innuendo.

As a result of an exhaustive, four-month study of the commission's enforcement processes, I decided to recommend to the commission several structural and personnel changes, which included reassigning Dennis A. Klejna, in order to strengthen our enforcement program. (I refer you to BUSINESS WEEK articles on Oct. 3 and 24, 1994, criticizing the program.)

On Feb. 17, 1995, members of my senior staff and I briefed each member of the commission on the study and my decision and asked whether they would support the changes I recommended, including the reassignment of Mr. Klejna. The commission unanimously supported the changes. Because the purpose of my conversation with Commissioner Barbara Holum was to brief her on the reassignment, it is absurd to suggest that the conversation caused the reassignment.

On Feb. 21 (not Mar. 8, as your article states), Mr. Klejna was asked, as a result of the review and the commissioners' unanimous agreement, to assume the newly created position of regional director for the New York regional office. Any suggestion that this reassignment was based on any reason other than improving the efficiency and credibility of the commission is completely unfounded and false.

As you state in your article, "BUSINESS WEEK has no evidence of White House meddling." Unfortunately, this accurate statement is buried several paragraphs into the story. In addition, though the article does not specifically state that the reassignment was politically motivated, the tone of the story, coupled with misleading statements, strong leads the reader to this conclusion.

Mary L. Schapi
Chairma
Commodity Futures Tradi
Commissi
Washingt

CORRECTIONS & CLARIFICATIONS

In the alphabetical list of companies fo "The BUSINESS WEEK 1000" (Cover Story, Mar 27), the correct address for Electronic Data Systems is 5400 Legacy Dr., Plano, Tex. 75024. The correct phone number is 214 604-6000.

In a chart accompanying "Laurels fo long-distance runners" (Cover Story, Mar 27), the average 1994 earnings per share for the BW 1000 should be $2.42; the average earnings estimate for 1995 should be $3.11.

The caption with a photograph on the Table of Contents page (Apr. 10), should have identified Nomura's star trader as Ethan Penner.

"At last, a green lawn mower" (Developments to Watch, Mar. 13) misstated the Environmental Protection Agency's estimate fo the pollution generated by lawn mowers and garden equipment. It is 2% to 5% of all air pollution, not 20%.

CUTTING THE BUDGET: A BULL'S-EYE AND ANOTHER TARGET

In response to the Mar. 27 editori titled "How to cut a cool $1 trillion" talk about a bull's-eye. That article ha the most sensible list of spending cuts eliminate the budget deficit I've ev seen. Did you send it to the Preside and to all the members of Congress?

Jeff Varhal
Vadnais Heights, Min

I would like to propose another cu tax breaks to charities.

Tax breaks for charitable contrib tions are a very wasteful way of spen

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ing taxpayers' money. Mr. X donates a painting worth $30 million to a museum. We reimburse him with about $10 million. I'd rather use the money to cut the national debt or improve education.

Undoubtedly, many charities are led by noble people and do a great job of alleviating some of society's problems. On the other hand, many officers of certain organizations draw salaries higher than the President's. They may deserve it, but I object to raising the national debt to pay them. The fact that the number of U. S. charities is rapidly approaching half a million may hint that there is an economic incentive that encourages certain individuals to develop charitable organizations. I believe that the tax break is the main incentive.

I estimate that the cost to taxpayers from tax breaks to charities is $50 billion to $100 billion per year. We could save this amount if we ceased reimbursing those who contribute to charities. The real benefactors don't need a tax break to make real contributions.

Nathan Ron
Bronx, N. Y.

PLAYING FAIR WITH SBA'S SET-ASIDE PLAN

Your recent story on affirmative action, "A hand up, but not a handout" (Social Issues, Mar. 27), cites information from a General Accounting Office report about contracts the Energy Dept. (DOE) awarded to small and minority businesses during a prior Administration. Current leadership at DOE has been a stalwart supporter of small and minority businesses, but we have not played favorites with 8(a) contracts, as suggested by the article.

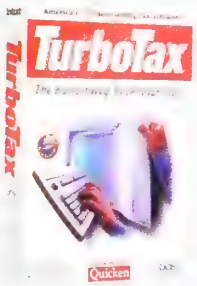
In fact, we do exactly what you recommend: cultivate and nurture minority suppliers. Technical help and management advice DOE provides has increased 8(a) prime contractors from a meager 19 awards in '92 to 122 awards in '94.

Corlis S. Moody
Director
Office of Economic Impact
& Diversity
Energy Dept.
Washington

NOT-SO-HOT INSTINCTS AT INTUIT

The responsiveness to complaints about errors in TurboTax discussed in "Good instincts at Intuit" (News: Analysis & Commentary, Mar. 27) is overrated. As someone who follows the Intuit Inc. messageboard on Prodigy, I know I am not alone in encountering continuing errors (even in the "corrected" version) and getting no response back to complaints. Intuit's TurboTax remains a sore point, especially for those of us who are so fond of Quicken. Microsoft may find TurboTax to be a suprisingly ill-behaved member of the soon-to-be-adopted Intuit family.

David R. Schleicher
Arlington, Va.



TAKING INTUIT TO TASK

As one "who follows the Intuit messageboard on Prodigy, I know I am not alone in encountering continuing errors... and getting no response back to complaints."

Is it better to be error-free or to have good PR and "damage control"? If you are BUSINESS WEEK, you would choose the latter and buy Intuit's TurboTax.

I would prefer error-free and would therefore choose Parsons Technology's TaxEdge. They did not have critical errors in their federal program. When they did have some errors in a California State package, they FedEx-ed new disks to every user without a customer request. Maybe Intuit should take some lessons from its subsidiary.

Brad Roberts
Palo Alto, Calif.

I take strong exception to your commentary "Good instincts at Intuit." One selling point that Intuit pushes for TurboTax is that it is fully compatible with Quicken. Yet the bug I encountered, limiting a list of capital-gains transactions, generated by Quicken, to 53, appears to be of no interest to Intuit. Generating more than 53 items of short-term capital transactions is not uncommon if you own several mutual funds that generate monthly dividends that are reinvested.

One would expect that BUSINESS WEEK would do more than take Intuit's word on what it is doing to correct a serious problem before writing such a puff piece.

Morris Zusman
Bethesda, Md.

PUBLIC SUPPORT FOR PRIVATIZING SOCIAL SECURITY

I rarely agree with Paul Craig Roberts' views, but I do agree with his suggestion in "A Social Security system that's putting America's to shame" (Economic Viewpoint, Mar. 27) that S cial Security be privatized. I am 31, a I seriously question the viability of t system by the time I plan on retirir My wife and I both contribute to o 401(k) programs at work, and we al make nondeductible IRA contributio to the best of our financial capabili A quick calculation shows that if v could contribute 15.3% of earnings (S cial Security plus Medicare contrib tions from employer and employee) u til I reach the age of 65, we could ea more than $500,000 for every $10,0 in earned income if we put the mon into an index fund and realized that i vestment's historical returns of 11.8%

This would certainly take care of o retirement needs—and increase o take-home pay as well as the capit needed for private investment. The sy tem must change eventually; why not change that benefits everybody?

Michael G. Shum
Brighton, Ma

Paul Craig Roberts' case for privat ing is a convincing solution to the Soc Security debacle.

When the world financial markets s some serious political support in Was ington for privatization of Social Secu ity, confidence in our country's resolve put our financial house in order will restored. That would be a major boo to the ailing dollar. Privatization wou also lower the cost of capital by addi billions to the capital markets. The r sulting increase in investment and ec nomic activity would create jobs, e pand the tax base, and help reduce t budget deficit. The political leader—a I stress, leader—who can sell this the public should have a bright futu indeed.

J. Laurence Jones I
Charlotte, N.

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IEN NATION
mmon Sense About America's Immigration Disaster
Peter Brimelow
ndom House • 327pp • $24

TAKE BACK YOUR TIRED, YOUR POOR

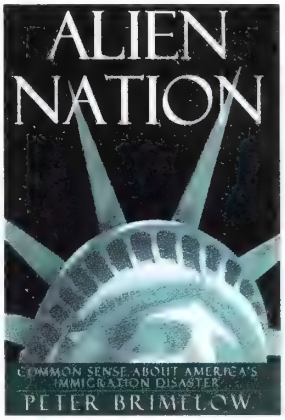
Peter Brimelow is a firebrand. He is an immigrant from Britain, as was his hero, Thomas Paine, ıose passionate pamphlet *Common nse* helped spark the American Revo-ion. Brimelow would like his incendi-y polemic, *Alien Nation*, to also incite e populace to act against what he sees the greatest threat facing America day: immigration.

Alien Nation's opening sounds the arm and establishes the book's ex-emist tone: "There is a sense in which rrent immigration policy is Adolf tler's posthumous revenge on Ameri-. The U. S. political elite emerged m the war passionately concerned to anse itself from all taints of racism or nophobia. Eventually, it enacted the ochal Immigration Act . . . of 1965. And is, quite accidentally, triggered a re-wed mass immigration, so huge and systematically different from any-ing that had gone before as to trans-m—and ultimately, perhaps, even to stroy—the one unquestioned victor World War II." Wow!

Brimelow, a senior editor at *Forbes* d a contributing editor to the *Na-mal Review*, certainly has a keen ase of timing. Immigration policy is al-ady the subject of a fierce debate that ll only get hotter during the 1996 esidential campaign, especially in ectorally critical California. The de-te also feeds into the battles over af-mative action and multicultural educa-n. And here, right on time, is imelow's clear, vigorously written vol-ıe, constructed mostly as a series of o-immigration assertions that he pro-eds to flay.

But despite Brimelow's style and agil-, this is an unconvincing book. The thor's reasoning eventually becomes surd as he depicts the nefarious immi-ant at work behind every high-profile cial, political, or economic problem—from crime to environmental destruction. In a bizarre digression, for example, he remarks that if Colin Ferguson hadn't emigrated to the U. S., the 25 commuters he mowed down on the Long Island Railroad would still be unscathed. More important, Brimelow utterly fails in his fundamental argument: that the American polity will disintegrate as it becomes less European and less white—and that only by closing off its borders can America preserve its identity.

Brimelow gives an illuminating legislative history of the Immigration Act of 1965, which tied immigration policy to the principles of nondiscrimination and family unity. He compares the current wave of immigration, which has brought record numbers of legal and illegal newcomers to the U. S. in the past decade, to earlier influxes to American shores. And he enthusiastically attacks the supposed economic benefits of immigration (in the process indicting a 1992 BUSINESS WEEK Cover Story co-authored by this reviewer).



Is immigration necessary for economic growth? Brimelow says "certainly not"—look at the success of xenophobic Japan. Moreover, economists contend that the traditional factors of production, labor and capital, now contribute relatively little to long-term growth: It's knowledge and innovation that count. So, Brimelow concludes, boosting the labor force through immigration won't do much good.

The trouble is, the same "accounting for growth" model that Brimelow cites also suggests why immigration can still pay off. Throughout U. S. history, such foreign-born entrepreneurs as Andrew Carnegie, backed by hard-working immigrant laborers, have unleashed awesome bursts of capitalist innovation and economic growth. Japan's experience is largely irrelevant.

Still, Brimelow's emphasis isn't on economics but on culture. Specifically, he says, a nation is an interlacing of ethnicity and culture, and in the U. S., that has historically been European and Anglo-Saxon. He fears the U. S. will break down as white Americans become a racial minority sometime late in the next century. Unlike earlier immigrants, he asserts, today's won't assimilate because of affirmative action, bilingual education, and multiculturalism.

Brimelow calls for drastic action to preserve national identity: Sharply reduce legal immigration—and maybe even cut off all immigration for three to five years. Seal the Mexican border. Begin a second Operation Wetback, the reviled 1954 drive that deported thousands of illegals. Require Americans to carry national-identification cards. Erect steep barriers to naturalization, perhaps even by amending the Constitution.

In all of this, Brimelow underestimates just how vibrant and durable American society is—and he demonizes immigrants just as xenophobes did in the 1850s and 1920s. Intermarriage rates, a vital indicator of assimilation, are the highest in decades. And most immigrants still come to the U. S. to work and raise families. Indeed, there has been no weakening in the acculturating effect of that central American institution, the workplace.

Of course, immigration policy does need an overhaul. For example, skilled and educated immigrants should have priority. While illegal immigration is a less acute problem than many might imagine, it should be made easier to deport illegals. And bilingual education must not handicap the very students it is supposed to help. There's no reason, however, to heed Brimelow's ugly jeremiad. To "save" his adopted homeland, Brimelow would destroy what makes America unique.

BY CHRISTOPHER FARRELL

Farrell covers the economics of immigration.

BRIMELOW SEES THE NEFARIOUS IMMIGRANT BEHIND EVERY PROBLEM IN THE HEADLINES

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BY STEPHEN H. WILDSTROM

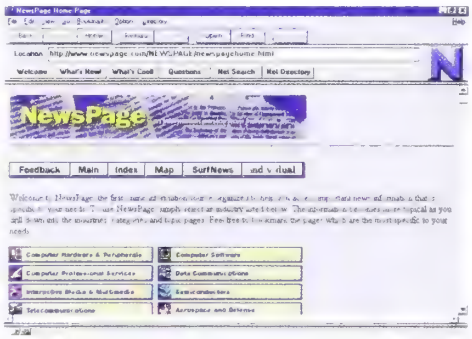
AN ONLINE FEAST OF BUSINESS NEWS

For years now, traders and others whose jobs depend on split-second decision-making have had a wealth of instant information on their desktops. In a world of global business and breakneck change, fluctuations in the value of the yen or policy moves by the Bundesbank reverberate far beyond the trading room. But relatively few businesspeople have had desktop access to such information.

These days, there's less and less reason to be in the dark. At the simplest level, online services such as CompuServe, Prodigy, and America Online offer news from wire services. But the stories tend to be little more than extended headlines, and business and financial information get short shrift. Online newspaper services, such as *The New York Times'* @times on AOL, are updated only once a day.

FREEBIE. A few intriguing alternatives offer information that is timelier, more detailed, or both. If you have access to the Internet's World Wide Web, NewsPage from Individual Inc. (http://www.newspage.com) offers news for free. NewsPage provides information culled from a variety of news sources, including the Reuters wires, with an emphasis on high-tech industries. Individual is selling sponsorship of pages to companies rather than charging users a fee. One problem with NewsPage is it opens with a list of topics rather than current headlines. You often have to burrow down through several layers of menus to find the news item that interests you. Using your Web-browser software to leave "bookmarks" for quick reference to favorite topics is only a partial solution.

Two new specialized dial-up services also have a lot to offer the business newshound. Profound, an upcoming offering from Market Analysis & Information Database Inc. (212 750-6900), combines a variety of news sources with the ability to search a large database of worldwide market-research reports. The service costs $19.95 a month plus $6.95 per hour. Market-research summaries are included, but the full reports cost extra. Profound uses Adobe Inc.'s Acrobat technology to give documents a professional, typeset appearance. They look great when printed, but I found them hard to read on-screen.



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Personal Journal from Dow Jones & Co. is a very good buy. For $12.95 a month, you can call in for a personalized daily download from a limited number of features in *The Wall Street Journal*. For 50¢ per call, you can update the report throughout the day with information from Dow Jones news services.

One new offering shows the promise of online services but is priced for companies only. NewsEDGE from Desktop Data Inc. (617 672-2400) pipes information from the sources of your choosing into a computer on your corporate network. This "news server" then supplies the data to Windows, Macintosh, and Unix machines on the net.

CALL ME. Once I learned the function of some cryptic icons in the Windows version, I found NewsEDGE fast and easy to use. You find information by subject, keyword, or stock symbol. You can also tell the program to alert you—either by beeping or by opening a window—when stories of interest move across the wires.

NewsEDGE costs about $300 per user per year for 100 users, less per user for bigger installations. The real cost, however, is in the licensing fees for news. Dow Jones's comprehensive Dow-Vision service of news and financial data costs up to $1,000 per user per month. For more basic service, Knight-Ridder Inc.'s business newswire costs $6,500 a year for unlimited usage.

These specialized business-news services are still a small piece of the online world. But with business increasingly online—and increasingly hungry for instant information—your choices are sure to grow.

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FLAT PANELS

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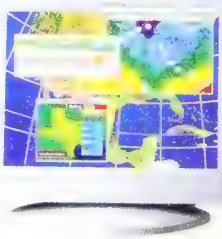
Big flat-panel displays, long feature of science-fiction movies, are slowly coming closer to reality. The new LCD1280 from NEC Technologies (800 632-4636) is a 13-in. diagonal active-matrix screen—th biggest of its type available



commercially. The resolution is workstation-quality, with brilliant colors and flicker-fre display. But don't expect big flat-screens to replace CRTs any time soon. Stiff manufacturing costs dictate an $11,755 price. NEC hopes to sell the LCD1280 for medical imaging and aerospace use—and perhaps as executive status symbols.

PROGRAMMING

IT'S MAC VS. WINDOWS

A number of readers took me to task for my Apr. 3 column, "Programming without tears." I said Macs are harder to program than Windows machine and that there are no Mac equivalents to the programs I mentioned. Professional developers are right that the Mac offers first-rate programming tools. But the tools I focused on were for more casual users. Also, Mac programs are pricey and sometimes hard to find. Mac fans who aren't intimidated by those drawbacks should look at Ma versions of Novell's AppWare ($500) and Allegiant Technologies' SuperCard 1.7 ($295).

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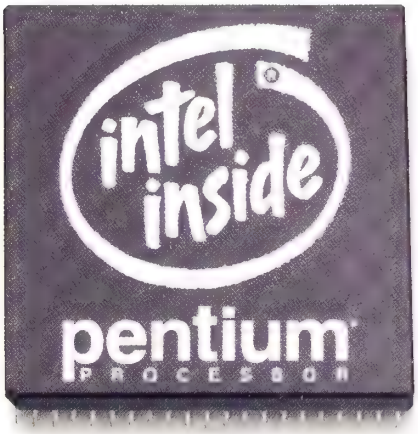

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BY ROBERT KUTTNER

THE BRAVE NEW TELECOM WORLD STILL NEEDS A REFEREE

Robert Kuttner is co-editor of *The American Prospect* and author of *The End of Laissez-Faire*

The Senate's telecommunications bill, drafted by Commerce Committee Chairman Larry Pressler (R-S. D.), might seem a grand bargain. Freed from regulatory shackles, emerging super-industries will enter each other's markets: Local Bell operating companies will offer long-distance service. Long-distance carriers will contest local phone markets. Likewise, cable companies and even electric utilities. Phone companies may merge with cable operators, wireless competitors can access the local phone grid, and everybody can venture jointly.

But in its eagerness to promote competition, this bill could actually undermine it. The mistake is to assume that lingering market power will disappear overnight. A new era of competition in telecommunications is surely in the offing, but the devil is in the details. Huge areas of monopoly power survive in this business. The local phone monopo usually a Baby Bell, still controls over 99% local markets. If you want to get into t telephone business, you first need access its switches. Very dense areas such as Ma hattan boast wireless options for basic pho service, but not in most of the country. Eve tually, cable companies may become dire rivals. But that will take many years. In t meantime, cable companies and phone comp nies may merge, leaving one wire to t customer.

The danger is that regulated monopoly w give way to unregulated monopoly, especia in local phone service. The Senate bill tries mandate fair competition by specifying checklist of measures that must be met b fore local phone service is deemed fully co petitive. Only then can the Baby Bells free go into the long-distance business, and or

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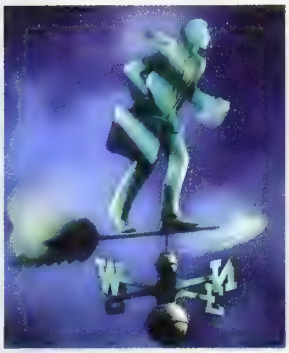

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REFORM?

A new bill to promote competition and free markets could actually lay the groundwork for unregulated monopolies

then do other regulatory strictures come off.

The checklist is sensible as far as it goes. It includes fair access to interconnections for Baby Bell rivals, equal access to telephone directory listings, "portability" of phone numbers when one switches companies, a system of reciprocal payments among competing local phone companies, and so on.

NO WATCHDOG. But equal access on paper is not the same as actual competition. The Bells can meet all the checklist's demands and still control 99% of actual markets. Fair play is also a moving target. When new rivals must piggyback on a dominant company's facilities, the incumbent is sorely tempted to play cute. Just ask MCI Communications Corp. executives about the games AT&T used to play.

An incumbent local phone company with 99% market share can agree to Pressler's 14-point checklist now. But as technology changes, no agency is empowered to review fair play as there has been under the terms of the AT&T breakup. There is now ample consumer choice for long-distance service—but only because the Federal Communications Commission, the Justice Dept., and U. S. District Judge Harold H. Greene continuously supervised the terms of engagement to keep AT&T from using its dominance to strangle MCI, Sprint Corp., and other newcomers. Had there been a premature free-for-all a decade ago, when competition was in its infancy, AT&T's market power wou have snuffed out all comers.

By contrast, the Pressler bill naively a sumes competition is mostly self-policing. would supersede the 1982 consent decree th broke up the Bell system, put Judge Gree out of business, and reduce the FCC's role. T approach followed by Ameritech Corp. a the Justice Dept. is more sensible. In a pil agreement filed on Apr. 3, Ameritech, the C cago-based Baby Bell, gets to offer limit long-distance service, but only as competiti for local service develops, and under the conti uing supervision of the Justice Dept.

Advocates of total deregulation conte that issues of equal access and fair play can sorted out by the rival industries themselv That happens all the time—it's called a cart

True competition in phone service is co ing—but only if it is policed, as it was long distance. In industries that have be regulated monopolies, with captive custom bases, the transition to fair competition not self-executing. "There are just too ma opportunities for anticompetitive behavio observes FCC Chairman Reed Hundt. "T top cop on the Information Highway st needs to keep a nightstick." Congress h waited 60 years to rewrite the 1934 Comm nications Act. They might as well take a fe more months and do it properly.

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BY GENE KORETZ

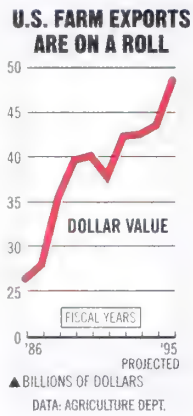
CHINA GIVES THE FARM BELT A HAND

Shortages help lift U.S. crop exports

American farmers are climbing on the export bandwagon. According to Agriculture Dept. projections, U.S. agricultural exports—aided by a sudden reversal in China's trade patterns—will jump by 11.5% in fiscal 1995, to a record $48.5 billion. As a result, the agricultural trade surplus should hit $20 billion, its highest level since 1982.

The pickup couldn't have come at a better time. After producing record crops of corn, soybeans, and livestock last year, U.S. farmers have been whipsawed by falling prices. Lately, though, surging foreign demand has been limiting the price erosion.

In recent years, notes economist Gary L. Benjamin of the Federal Reserve Bank of Chicago, exports of bulk commodities such as grains and cotton have stagnated while exports of "high value," consumer-oriented items such as meats, poultry, dairy products, fruits and vegetables, and snacks and cereals have taken off. Now, farm commodities are rejoining the parade. Corn exports are expected to rise this year by 40%, to $5.3 billion, cotton exports by nearly 50%, to a record $3.4 billion, and wheat exports by 20%, to $4.8 billion.



The biggest catalyst in this turnaround is China, which has sharply curtailed agricultural exports in the wake of food shortages and surging food prices. This year, China will import corn for the first time in five years and cut its own corn exports by about 75%, to less than 120 million bushels. It will also become a net rice importer for the first time since World War II. And it is expected to boost its wheat imports by 250% and quadruple its cotton imports, mostly from the U.S.

Many agricultural observers are betting that the sudden reversal in China's trade pattern will persist. While its grain output has been relatively high in recent years, it has failed to post much growth (BW—Apr. 10), a situation that seems to reflect lagging agricultural investment. More important, China's industrial growth and expanding middle class are fueling demand for a greater variety of agricultural products.

The pattern is similar in many other Asian markets. With China currently out of the running as a corn exporter, for example, U.S. sales to South Korea—a mere 20 million bushels last year—have already surpassed 190 million bushels.

HANDICAPPING A SOFT LANDING

History says it could be delayed

Signs are multiplying that the economy has slowed from its heady 4.1% advance in 1994. But before one concludes that 1995 will see a soft landing, economist Samuel D. Kahan of Fuji Securities Inc. in Chicago advises a look at the historical record.

In the past 40 years, notes Kahan, the U.S. has experienced just 14 years of growth exceeding 4%. In half of those 14 years, growth in the following year also topped 4%, and in 10 it exceeded 2.5%. Thus, the historical record suggests there's just a 30% chance that growth will slow to 2.5% this year and an even bet that it won't slow much at all. "Once the economy develops a head of steam," warns Kahan, "it can take a year or so for things to cool off."

FOGGY CRYSTAL BALLS

Newsletters are no market timers

It's a well-known fact that market timing—the ability to move in and out of the stock market in anticipation of market shifts—can pay off big. Indeed, hundreds of investment newsletters specialize in recommending allocations of cash and equity holdings to capitalize on just such pending market shifts.

To assess the value of such advice, economists John R. Graham of the University of Utah and Campbell R. Harvey of Duke University reviewed asset allocation recommendations made by 237 investment letters over the period 1980-1992. They found that 75% of the letters underperformed buy-and-hold portfolios based on the Standard & Poor's 500-stock index—and some gave remarkab poor advice. For example, the high-pro *Granville Market Letter-Traders* pr duced an average annual loss of 1% ov the 13 years studied, compared with 15.9% average gain for the S&P.

The researchers also found little e dence that the letters' recommend equity weights increased before mark upturns or declined before downturns. a letter's advice beat the market f two years running, it stood less than 50% chance of doing so for a third ye But if it performed poorly for two yea it had a 70% chance of doing so agai

"There are undoubtedly some exc lent market timers out there," sums Harvey, "but unfortunately most them don't seem to write newsletter

GAINERS FROM CAPITAL GAINS

Guess where a tax cut would land

Who will benefit most from a capit gains tax cut? If you said t wealthy, you're on target. Based on analysis of tax data for 1990-92 by t Tax Foundation, taxpayers with adjust gross incomes above $500,000 a ye coughed up 42.3% of the $31.7 billion a erage annual capital-gains tax burden those years. Those with incomes $100,000 to $500,000 supplied nearly third of capital-gains taxes, and tho

earning under $100,000, around 26

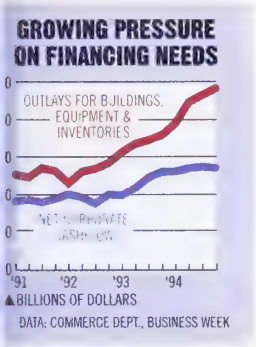
Although they filed only a tiny fracti of taxable returns (0.002%), over 60% taxpayers with adjusted gross incom exceeding $500,000 paid capital-gains ta es, as did over a third of the 3.7% taxpayers with incomes between $100,0 and $500,000. By contrast, capital-gai taxes were levied on only one out seven of the 17% of taxpayers with comes between $50,000 and $100,000 a only 5.9% of the nearly 80% of filers wi adjusted incomes under $50,000.

/ JAMES C. COOPER & KATHLEEN MADIGAN

THE BUSINESS BOOM S QUIETING DOWN

U.S. ECONOMY Corporate America was on a roll in 1994. Led by consum- s, the economy boomed—and so did profits. Flush ith cash, businesses shelled out big bucks for every- ing from fancy computers to larger inventories to w buildings to house it all.

Sounds too good to last—and it won't. After seven terest-rate hikes by the Federal Reserve, the corpo- te roll isn't coming up sevens anymore. So far in 95, consumers continue to signal that they have lost me of their urge to splurge, especially for cars and mes. And U. S. companies are starting to feel the im- ct. Order books, while far from empty, aren't filling as fast. Production lines are slowing a notch. And me past price hikes aren't sticking.

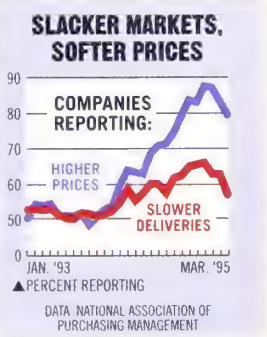


As a result, profits won't look as bubbly, either. Last year's upbeat earnings reports are likely to be replaced by downward revisions to 1995 earnings estimates and negative surprises. And weaker cash flow, not to mention the higher cost of capital, will quiet the boom in capital spending (chart). Although corporate balance sheets are far m a disaster, fewer funds will be available for new ojects, weakening another key prop under this four- ar-old expansion.

As the year wears on, the business slowdown—and impact on corporate earnings—may test the stock arket's upbeat tone. The bulls sent the Dow Jones in- strial average over 4200 on Apr. 4. Stocks are rally- g mainly because investors believe the Federal Re- rve is bringing the economy down for a soft landing. t what investors may have overlooked is that a soft nding also means softer earnings.

E MORE SUBDUED TONE of business is unmistak- le in the latest soundings by the nation's purchasing anagers. Their March index of industrial activity— mprising production, orders, delivery speeds, invento- es, and employment—fell sharply for the second onth in a row, to 51.4%. That reading, which is the west in 1½ years, is just above the 50% line dividing pansion from contraction in manufacturing. The index far below its peak of 59.9% hit in November.

In addition to the marked slowdown in new orders d output, the purchasers' report also flashed clear signals that past market tightness for many goods appears to be unwinding. The percentage of purchasers reporting slower deliveries has fallen substantially in recent months. As if to confirm that slack, fewer purchasers are reporting increases in the prices they pay for materials and supplies (chart).



The cooldown in commodity prices is a big reason why the government's index of leading indicators fell 0.2% in February. The index has gone nowhere since last August, a sign of slower growth to come.

Signals such as these are why the Fed put monetary policy on hold at its Mar. 28 meeting, and signs are growing that the Fed may forgo action at its May 23 gathering as well. First-quarter economic growth is shaping up to be exactly what the Fed wants to see: 2.5% or less. That pace would be the slowest since the summer of 1993 and about half of the fourth quarter's 5.1% growth rate of real gross domestic product, which the Commerce Dept. just revised up from 4.6%.

WITH A COOLER ECONOMY in the outlook, the bottom lines of many companies won't look as hot, either. Along with its GDP revision, Commerce also reported that corporate profits in the fourth quarter posted a good gain, in line with BUSINESS WEEK's recent aggregation of individual companies.

However, annual earnings growth is flagging. Before-tax operating profits—adjusted for changing inventory values and differences between tax-based and replacement-cost accounting—were up only 4.9% from a year ago. That's down from peak growth of 35.9% in the third quarter of 1993. For 1995, the weaker dollar will boost earnings of offshore operations, as those profits are converted into dollars, but earnings from domestic operations account for 90% of the total.

Margins are likely to come under increased pressure as well. Profits as a percentage of real output of nonfinancial corporations trended higher for four years. But that margin hasn't budged since hitting 12.7% in the second quarter of 1994. As the cyclical slowdown in productivity growth continues in 1995, unit labor costs will grow faster at a time when pricing power will be limited by waning demand.

The key consequence of weaker profits could be less

capital spending. Net cash flow—retained earnings plus depreciation—has slowed markedly as well. As a result, companies are experiencing a growing gap between their outlays for new investments and the internally generated funds necessary to pay for those projects. This so-called financing gap, which leads the growth rate of business investment by about a year, was the widest on record in the fourth quarter.

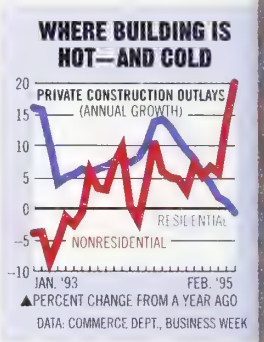
With companies spending freely on equipment, buildings, and inventories, businesses must turn to the credit markets, where the average yield on AAA-rated corporate bonds has risen more than a point, to 8.1%, since the Fed began tightening. That raises the "hurdle rate" that a potential return on an investment must clear to justify its cost—just when softer business conditions raise uncertainties about the future.

SO FAR, there is little evidence that the demand slowdown is only fleeting. That's especially true for consumer spending. Real purchases of goods and services fell 0.1% in February, and March surveys of retailers look uninspiring. March car sales fared better than in February, but they are still below their fourth-quarter pace. In all, first-quarter consumer spending appears to have risen at an annual rate of about 2.5%, well below last year's trend.

The outlook for consumers hangs on job growth, and on that front, some letup seems on tap. Through February, help-wanted advertising in the nation's majo newspapers had fallen well below its fourth-quarte level, after a two-year uptrend. And at the end o March, the four-week average of first-time jobles claims had risen to an eight-month high.

In addition, construction was a drag on first-quarte growth. And given the weakness in housing, which ac counts for nearly half of all construction outlays, will remain so in the second quarter. Total spending, ac justed for inflation, fell 0.5% in both January and Feb ruary, the first back-to-back decline in a year.

Not all construction activity has tanked. While residential building in February fell below its year-ago level for the first time in 3½ years, outlays for factories, offices, and other commercial buildings soared 20.1% ahead of a year ago, reflecting the strength in capital spending (chart). But business outlays are only about a fifth of the total.



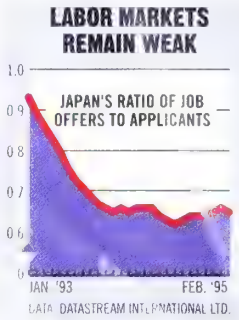
To be sure, businesses aren't about to gut their 199 capital budgets—intense competition in the global mar ketplace won't allow that. However, a slower econom weaker cash flow, and higher borrowing costs will mak companies a lot pickier in their spending.

JAPAN

THE SURGING YEN IS A REAL DRAG

The latest data on the Japanese economy give such mixed signals that they underscore how fragile the recovery is—and how detrimental the superyen could be to Japan's growth prospects in 1995.

Leading the negative news was an unexpected annual-rate drop of 3.4% in the fourth-quarter gross domestic product. And signs of softness continued into early 1995. The jobless rate was unchanged in February at 2.9%, while the ratio of job offers to applicants slipped to .65, from .66 in January. The ratio has hardly moved in a year (chart).



Little wonder then that consumer spending fell at a 2.5% annual pace in the fourth quarter and started January with a 4.2% drop from a year earlier. Moreover, household buying may not pick up soon. The spring wage negotiations are expected to result in near-record-low pay raises this year.

However, other signs point to strength in Japan's economy. Housing starts in February were up 1.8% from a year ago, helped by low-cost government loans. Car sales last month rose 11.2% from March, 1994. And despite the yen and the Kobe earthquake, industrial production in February increased 1.9% from January. Furthermore, the Ministry of International Trade & Industry forecast that March output rose an additional 2.3%.

These diametric signs may be why the Bank of Japan did not cut the official discount rate on Mar. 31, choosing instead to nudge overnight lending rates to 1.75%, equaling the record-low ODR. The lack of an ODR cut disappointed financial markets, which had hoped for a bold BOJ move to weaken the yen and lift the economy. Indeed, maintaining industry's momentum will be hard given the drag on exports from the surging yen.

The door is not closed on an ODR move. January's consumer spending drop means that first-quarter GDP could be in or near negative territory. Back-to-back GDP declines would raise fears of a triple dip in the economy, giving the Bank of Japan little choice but to cut the discount rate.

Because we recycle over 100 million plastic
ttles a year, landfills can be filled with other things.
Like land, for instance.
e can't make more land. But we can do
ore to protect what we have. In fact, last
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ant processed over 100 million contain-
s. This effort reduced landfill waste and
helped conserve natural resources. And
that left another little corner of the world
all alone. At Phillips, that's what it means
to be The Performance Company.
PHILLIPS PETROLEUM COMPANY
PHILLIPS 66
an annual report on Phillips' health, environmental and safety performance, write to: HES Report, 16 A1 PB, Bartlesville, OK 74004.

BASEBALL

OWNERS: 1 PLAYERS: 0

Baseball's barons are winning–they just don't know it yet

You would think they had just called off the season. Leaving the baseball owners' Apr. 2 meeting at Chicago's O'Hare Hilton Hotel, Atlanta Braves co-owner William C. Bartholomay stalked grimly past reporters. Bud Selig, owner of the Milwaukee Brewers and baseball's acting commissioner, flared up in anger. "I don't regard it as a surrender," he barked.

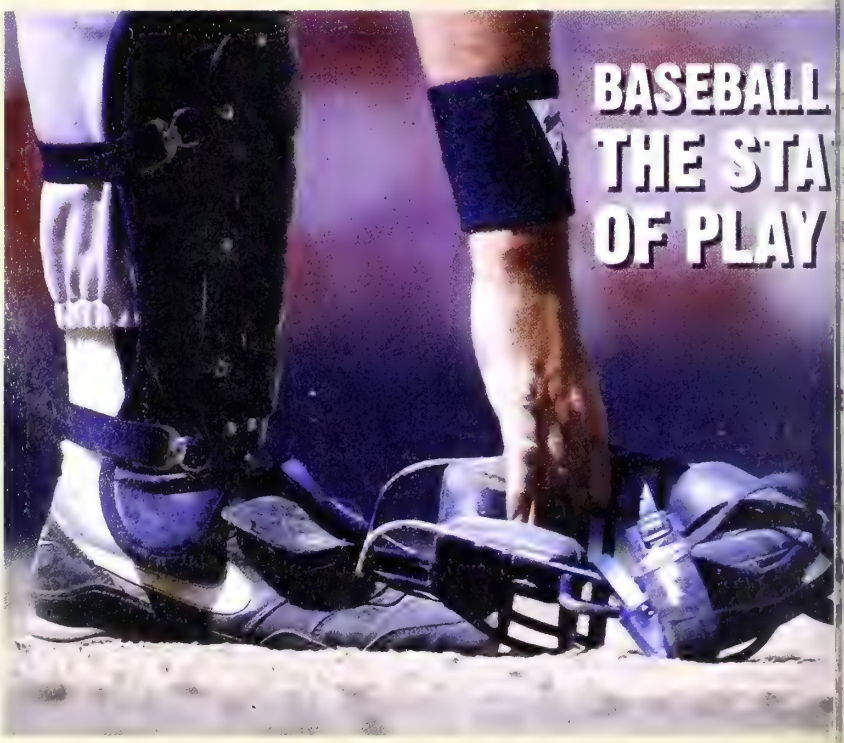
Easy, guys. You won. A mechanism to slow soaring labor costs is in the works. And on Apr. 26, at last, big leaguers will play ball. After federal Judge Sonia Sotomayor in New York issued an injunction on Mar. 31 that had been requested by the National Labor Relations Board, Major League Baseball's professional players voted to end their 234-day strike. The owners agreed to start the season after a three-week delay to allow for an accelerated spring training.

Even before the injunction came down, baseball's owners were way ahead. The players had agreed to some form of "luxury tax" on clubs with high payrolls, creating a disincentive for rich teams to jack up stars' salaries and curbing the forces that have lifted pay an average of 14% annually over the past 15 years. Think of it as legislated self-control: Owners, unable to stop spending on their own, now will pay through the nose if they do so.

TARNISHED GAME? Granted, hard-line owners want a larger tax, which they're unlikely to win now. But "once the players bought the principle of a luxury tax, it's just a matter of quibbling over the numbers," says Gary R. Roberts, a Tulane University law professor who once represented football's owners in labor battles. The union's proposal would levy a charge of 25% on team payrolls that exceed $50 million, a threshold that would escalate in future years. If applied today, the tax would hit just five or six of the highest-paying teams. "That way, the market is inhibited but not shut down altogether," says Lauren Rich, an in-house union lawyer. Even Robert D. Manfred, an outside attorney for the owners, concedes that the union's proposal would generate taxes of $25 million after three years if payrolls grew just 3% faster than revenues.

The owners' hang-up: They want more. Their latest proposal calls for a 50% tax on payrolls above $44 million, which would do more to reduce the disparity between the highest-spending Detroit Tigers' 1994 payroll of $56 million and the low-ball San Diego Padres' $20 million. "It's not as simple as just splitting the difference [between the two sides]," says Colorado Rockies owner Jerry McMorris.

Even if the players ceded that point, however, the teams can't agree on what to do with the proceeds. The players want luxury taxes to be divided among poorer teams in smaller markets, to level the playing field. Big-money teams, however, object to such corporate socialism, and no unified proposal has come forth. Indeed, some hard-liners seem determined to continue the fight. One indication: As the strike ended, Selig demoted Charles P. O'Connor, Manfred's boss, who has advised th



ıgue on labor for years. In his place, lig elevated Robert L. Ballow, a ıshville attorney who has advised ag-essive employers on how to use per-ınent replacements to break unions. allow's success is in using replace-ents in industries where equipment ı do the work anyway," says union ıder Donald M. Fehr. "This industry ain't that."

Negotiations likely will start again soon, although they may not get serious until the owners' injunction appeal is decided next month. In the meantime, the league has begun repairing the damage done by the strike. By allowing players back onto the field, the owners averted the risk of having to pay at least $5 million a day in back-pay liabilities that could have resulted from unfair labor practices charges against them. More important, they won a chance to resuscitate their sport before more damage was done.

Selig recognizes the urgency of the task ahead. "Right now, it's important to get the focus of the game back on the field," he told reporters. "It's in our best interests for us to do that." Indeed, after losing $350 million last year and alienating fans from Yankee Stadium to Candlestick Park, baseball has lots of lost ground to make up. Ticket sales are off, and some advertisers are demanding discounts for supporting a sport they fear may be tarnished in viewers' eyes.

To woo back fans, clubs are trying gimmicks, giveaways, and ads that deflect attention from all the strife. A Chicago White Sox television commercial features a fan who met her boyfriend at Comiskey Park. And the Chicago Cubs are extending the half-price ticket offer begun during the strike until May 3. "We're going to be saying, 'I'm sorry' a lot," says Rob Gallas, the White Sox marketing vice-president. Is it working? Some clubs, such as the Tigers and the Texas Rangers, have kept 70% to 90% of season ticket-holders. However, less dedicated fans will likely be a tougher sell. During the strike, the Tigers only sold half of their 52,000 seats for opening day, an annual sellout.

SKITTISH SPONSORS. Clubs are rushing to win back advertisers, too. Even with replacement players, the league retained all but one of its 20 multiyear deals with major TV advertisers. But other, smaller deals haven't materialized, so owners remain $60 million short of the $200 million in national ad revenues they were set to collect before the strike last season. Some clubs, moreover, had to offer steep discounts to retain local advertisers. The Houston Astros kept many major accounts, but only with a 50% discount.

Now, teams are trying to sell their regular product again at full price, but some sponsors remain skittish about the damage to fan interest. Coca-Cola Co. is seeking reductions in its $18 million worth of local baseball contracts. And Houston Astros broadcast director Jamie Hildreth says that his team lost some local advertisers whose budgets were allocated before the walkout ended. Still, the robust economy has created a shortage of ad space during prime time, when the league broadcasts games on 12 nights plus the playoffs and World Series. "The overall tightness of the prime time market will help tremendously," says Robert E. Igiel, the head of broadcast at Young & Rubicam Inc.

Ultimately, fans and advertisers likely will trickle back to baseball: They always do, it seems. Even as the stadiums fill up, though, the labor standoff looms large in the background. If owners win their appeal of Sotomayor's injunction, which appears unlikely, they may abolish the old contract again and trigger another walkout. If they lose, however, owners finally may start to compromise. The upshot? "This isn't over," says Fehr. "This is halftime." Those aren't the comforting words disillusioned fans have been waiting 10 months to hear. But this contest is unlikely to end until owners figure out that they can quit and still come out winners.

By Aaron Bernstein in New York and David Greising in Atlanta, with bureau reports

FINANCES The 28 club owners lost $350 million last season, most of ɔwing cancellation of the highly profitable playoffs and orld Series. Major-league players lost about $300 million ary.

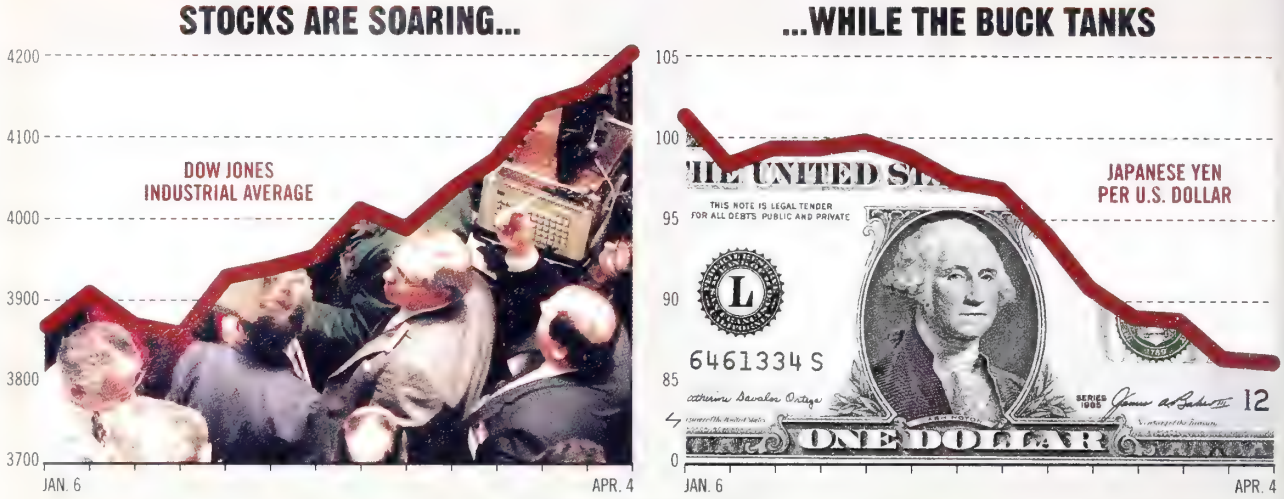
ET SALES Some clubs, such as the Cleveland Indians and etroit Tigers, have sold 70% to 90% of their season tick-hough sometimes at reduced prices. But single-ticket around the league could be hit hard.

RTISING Major League Baseball has renewed all but one 20 major national TV advertising deals, and its prime-time casts are attractive vehicles. But it still is $60 million of the $200 million in ad revenue raised last season.

R TALKS The standoff between owners and players will continue for a month or so, while the owners ıl the court injunction that forced them to restore the bor contract.

DATA BUSINESS WEEK

The Markets' Paradox



DATA BLOOMBERG FINANCIAL MARKETS

THE DOLLAR

BEHIND THE FED'S NOT-TO-WORRY STANCE

Despite global tensions, the U.S. is standing its ground

From Washington to Bonn to Tokyo, it has been a long-held article of faith that a strong currency is the cornerstone of a robust national economy. Lately, this tenet has lost some credence. Since December, the U.S. stock market has surged to new records and bonds have staged a solid rally, even as the dollar collapsed against the German mark and Japanese yen. Meanwhile, as the mark and yen soared, German and Japanese stock and bond markets headed into tailspins that threaten to seriously stall their economies.

What's going on? U.S. market mavens believe that ignoring the dollar's decline is anything but irrational. Traders say they are focused on U.S. economic fundamentals, rather than on what they see as the symbolic value of exchange rates. The U.S. stock and bond markets are rising on investors' belief that the U.S. economy is in better shape than those of its major trading partners.

FINGER-POINTING. Indeed, investors are betting that Federal Reserve Chairman Alan Greenspan has piloted the economy to the "soft landing." And many economists are shrugging off the dollar's drop as a short-term setback tied to the chronically high U.S. trade deficit, Japan's enormous surpluses, and the fear that another American-financed bailout of Mexico is looming. "This is another of those speculative episodes that often go faster, and reverse faster, than people estimate," says Merrill Lynch & Co. Chief Economist Donald H. Straszheim.

Still, the turmoil has set off a new round of finger-pointing by anxious central bankers, government officials, and overseas investors, who worry that the dollar's stunning 14% decline against the yen and 11.6% drop against the mark this year eventually will lead to a global slump. "The dollar has been a store of value, not just for the U.S. economy but for global wealth and trade," says First Chicago Corp. Londo strategist Kirit Shah. "It's surprisin the U.S. can take such a benign view

> Wall Street seems to be banking on the belief that the U.S. is in better shape than Japan and Germany

U.S. officials haven't been completel indifferent to the decline: With the do lar hovering around 86 yen, the Trea sury Dept. on Apr. 3 and Apr. 5 or dered the Fed into the market to pro up the greenback. Both efforts seeme to have had little effect, convincin traders that the Clinton Administratio is trying only to slow the dollar's declin rather than stem it.

CLEAR SIGNAL. To keep German export competitive, the Bundesbank cut its dis count rate half a point, to 4%, on Ma 30. The Japanese followed with a qua ter-point cut in money-market rates Some analysts think the Bank of Japa which bought an estimated $15 billion o currency markets in March alone, no may slash its record-low 1.75% discou rate by as much as a full percentag point as early as mid-April.

But so far, the Fed is not even hin ing at raising rates to try to prop u the dollar. Its unwillingness to do so— worries about aborting the U.S. ec nomic expansion—has sent a clear sign to the markets that currency concer won't drive monetary policy. "The Fe has never believed in targeting the do lar at any specific exchange rate," says former Fed official.

That attitude, reinforced by Gree span's willingness to stay on the sid lines, isn't playing well with his foreig counterparts. Many fear that neglect the dollar by the Clinton Administra tion and the Fed could endanger th recoveries under way in Europe an Japan—triggering a global recessio

at would drag the U. S. down as well. pan may see its gross domestic prod- t nearly stagnate this year (page 56). nd German officials are "infuriated ith the Fed's unwillingness to accept sponsibility for the dollar," says one ternational monetary source. "They el they were forced into a rate cut the U. S."

D INFLATION FEARS. Unless it takes eps to change macroeconomic policy, arn European experts, the U. S. could se its status as the world's leading re- rve currency and see its borrowing sts skyrocket. "The question is, 'How ng can the U. S. preside over the de- ruction of its currency?'" asks George agnus, international economist at S. G. arburg Group.

But the Fed hasn't felt that pressure act, at least up to now, because of the sser role trade plays in the U. S. econ- ny. Germany derives about 20% of its onomic output from merchandise ex- rts, and Japan's largest export market mains the United States. That's why th countries feel intense pressure to t rates to stop their currencies from aring and making their exports too pensive. Some Japanese analysts think e Clinton Administration won't accede a dollar-rescue plan until it wrests w trade concessions out of Tokyo.

The Administration may be able to ke this stand because it isn't worried at a weaker dollar will fuel inflation. xports account for less than 10% of .S. output, and imports of merchan- se goods represent another 13%. The ed presumably saw little risk that the eaker dollar would spark an import- iggered surge in inflation that could reck the soft landing. While the dollar s fallen steadily against the mark and n since 1985, the U. S. inflation rate s been heading steadily down. "We e considerably more closed than the obalizers would have us believe—and erefore more able to control our own stiny," Fed Vice-Chairman Alan S. linder said in a recent speech.

Truth be told, the U. S. dollar hasn't opped that much on a trade-weighted sis. With the Mexican peso and Cana- an dollar in steep declines of their wn, the Federal Reserve Bank of Dal- s estimates that the greenback is bare- down over the past year.

For now at least, Fed officials seem nwilling to sacrifice the U. S. economy the altar of global coordination. But ith the dollar moving into uncharted aters, further declines could prompt reenspan to change his mind. That's ot out of the question. In the brave w world of currency exchange, the d rules may no longer apply.

By Dean Foust in Washington, with ill Javetski in Paris

COMMENTARY

By Paul Magnusson

QUICK–SEND MEDICARE TO THE E.R.

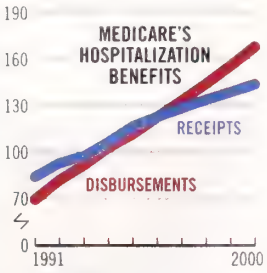
Social Security checks provide a nice retirement cushion for Justin Kawaler, the former owner of four furniture stores in Queens, N. Y. But Kawaler's government checks didn't even begin to cover the enormous medical bills incurred by his 74-year-old wife, Evelyn, who underwent an operation for cancer in 1990, followed by two years of expensive follow-up procedures. Medicare picked up the tab. "Everybody I talk to in the waiting rooms says that without Medicare, they'd go completely broke," says Kawaler.

THE AARP'S LEHRMANN: *High costs swamp Medicare*

As hospital costs climb, Medicare becomes ever more important to the elderly. Yet far faster than most people realize, the strain of covering soaring bills is pushing the program toward insolvency. An Apr. 3 report from the trustees of the Social Security system shows that cash flow at Medicare's hospital-insurance program, which provided $103 billion for 36 million patients last year, will be negative in 1997. And by 2002, its cash reserves of $134 billion will be exhausted.

SKITTISH. Rather than seek a fix, however, Washington is pretending there's no crisis. House Republicans are hoping to bleed Medicare to pay for tax cuts or deficit reduction. The GOP's Contract With America even promises to roll back a 1993 tax hike that was designed to buttress Medicare. Meanwhile, the White House is skittish about proposing any new reforms after its health initiatives failed so spectacularly last year. "There has been a willing suspension of disbelief here and a misguided hope that the problem will somehow just go away," says Roland E. King, the government's chief health actuary from 1978 to 1994.

TROUBLE AHEAD



DATA: FEDERAL HOSPITAL INSURANCE TRUST FUND

In reality, Medicare's problems are so severe that a major overhaul is required. A quick-fix mixture of benefit cuts and administrative reforms would buy enough time to fashion a longer-term solution. But Medicare can't be cured completely without an overall health-care reform that will slow the medical inflation rate. "If health-care costs continue to escalate at the current rate, we'll never get Medicare caught up," says Eugene Lehrmann, president of the American Association of Retired Persons. Indeed, without drastic reform, Medicare's share of overall Social Security benefits to the elderly is expected to reach 50% by 2011, up from 32% today and 18% in 1970.

The first step should be a careful look at the problem. Yet no panel is even examining Medicare, and the Administration is not highlighting the crisis. "It's very important that Medicare doesn't become politicized," says a senior Administration official. Translation: By acknowledging the situation, Clintonites would have to propose a solution. As insolvency looms closer, however, retirees won't be letting politicians skirt the issue much longer.

Magnusson writes about economic policy from Washington.

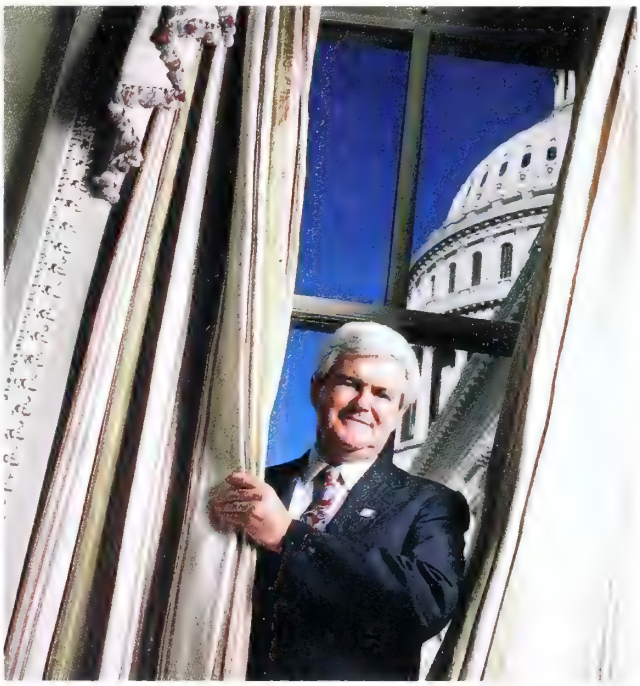
CONGRESS

NEWT LITE: WATERING DOWN THE CONTRACT WITH AMERICA

Two of its pillars fell, and voices of moderation now will prevail

House Speaker Newt Gingrich (R-Ga.) invited the circus to perform outside the Capitol on Apr. 5. Clowns and pachyderms mingled with lawmakers as House Republicans' saluted completion of work on their Contract With America. But the revelry masked a sobering reality: Key elements of the revolutionary manifesto are being scrapped, watered down, or rewritten by moderate Senate Republicans and a cadre of middle-of-the-road Democrats.

Even before Gingrich's Hundred Days drew to a close, two pillars of the program—term limits and a constitutional limit on Congress' ability to raise taxes—crumbled in the House. The balanced-budget amendment failed in the Senate. And the centerpiece of Newtonian economics—a huge tax cut—seems sure to be scaled back on the other side of the Capitol.



GINGRICH: *According to one poll, many voters feel that he is "too extreme in his views"*

WON THE BATTLE. What will the revised Contract look like? It will build on the promises of the original but will be more moderate and less likely to rile voters. It will, for instance, limit the regulation-writing powers of bureaucrats—not stamp out new rules entirely. It will sharply cut spending—but trim taxes only modestly. And it will make it harder—though far from impossible—to pursue big-bucks legal claims against business. "There's a go-for-the-throat mentality in the House," notes Senator Ben Nighthorse Campbell (R-Colo.). "The Senate is the house of moderation."

Still, Gingrich and his hard-right conservatives have won a major victory by fundamentally changing the debate in Washington. Now the question is not whether to cut government bureaucracy, but by how much. And the battle is not over whether to grant regulatory and tax relief to business but how best to stimulate job creation in the private sector. In addition, deficit-reduction priorities have shifted from tax hikes to spending cuts. "The Contract is an important document," says Robert L. Strickland, chairman of Lowe's Cos., a North Carolina-based home-improvement chain. "It's the first step toward significant change, a devolution of power from Washington back to the states."

Other execs worry that the House has taken its program too far. "I'm supportive of what's going on in the House as an overall momentum pusher," says Scott G. Mackin, president of Ogden Projects Inc., an operator of waste-to-energy plants. "But I'm looking to the Senate to get the right answers."

The Senate's tax-cut debate will be a key test of the centrists' clout. Influen tial committee chairmen such as Buc get's Pete V. Domenici (R-N. M.) an Finance's Bob Packwood (R-Ore.) wi join Democrats in demanding spendin cuts before tax breaks. "We are willin to step forward and make deficit reduc tion the first priority," says Packwood Senator Phil Gramm (R-Tex.) is pushin a capital-gains cut financed by endin federal research and expor subsidies—dubbed "corporat welfare" by critics.

With Senate Majority Leade Bob Dole's backing, a modes family tax cut and capital-gain relief seem inevitable. But th tax bill will fall far short of th $189 billion House plan. An key provisions of the measur will be jettisoned entirely, in cluding more generous deprec ation for capital investment.

MEDIA HELP. A similar fat awaits the House's crackdow on lawsuits against busines Senators believe that th House got caught up in a law yer-bashing frenzy that pro duced a bill sure to be vetoe The Contract's controversi "loser pays" concept is a gone Corporate America has th votes to cap some damag claims, but Senate centrist would set a $250,000 limit o punitive damages only in proc uct-liability cases, while hardlin ers would include medical ma practice and all other suits. While th Senate moderates now hold the uppe hand, trial lawyers are bracing for massive public-relations blitz by pro tort reformers (box).

Another business priority, regulat ry reform, also will be modified. A Dole's urging, the Senate will make dra matic changes in the way federal rule are written. But it has scrapped th House's controversial plan to freeze a new regulations, opting instead to giv lawmakers 45 days to veto them. A bi unresolved issue: the threshold at whic bureaucrats would be required to pe form cost-benefit and risk-assessmen analyses before adopting new rules. Th House would target regs with an ec nomic impact of $25 million; the Senat prefers $50 million to $100 million.

In pursuing its new Contract, th

The Holy Grail of House Conservatives, a huge tax cut, probably will be scaled back in the Senate

enate is trying to have the best of oth worlds—the popularity of the ouse's market research-driven concepts ithout the radical label successfully af- ked by House Democrats. A recent *Vashington Post* poll found that 59% Americans say Republicans "go too r in helping the rich" at the expense "needed government services that enefit average Americans." And a mes Mirror poll released on Mar. 30 und that, by a 5-to-3 ratio, voters say ingrich is "too extreme in his views."

President Clinton is embracing popular elements of the Contract, such as a Presidential line-item veto and a requirement that Congress live under the laws it applies to business. But he's condemning the GOP for "attacks" on programs for children and the elderly. The President "can pick and choose his fights," notes Representative Bill Richardson (D-N. M.). "He can look pragmatic while they look doggedly ideological and extreme." Republicans hope to force Clinton to veto key items such as middle-class tax cuts or welfare reform. Says GOP pollster Anthony Fabrizio: "It will reinforce Clinton as liberal."

Such ideological warfare might be good campaign fodder, but compromise is essential to secure real legislative accomplishments. Gingrich has done more in three months than any Washington figure since Lyndon Johnson. But to really fulfill his grand ambition of remaking government, he must prove to the Senate—and the American people—that he is no mere ideologue.

By Richard S. Dunham and Howard Gleckman, with Mary Beth Regan, in Washington, and with bureau reports

FROM THE FOLKS WHO BROUGHT YOU HARRY AND LOUISE...

When Ben Goddard opened his first advertising shop in 1969, he was a gentle peacenik whose beat-up Rambler sported an antiwar bumper sticker. Not exactly the type of guy you would expect to wind up planning how to hype Newt Gingrich's conservative Contract With America.

But today, Goddard, 52, and partner Richard Claussen, 41, are political hired guns with a knack for finding the bull's-eye. You've probably seen their work: They're the folks who came up with the "Harry and Louise" TV ads last year that were funded by the insurance industry. The spots, which featured a couple fretting that they might have to switch doctors under President Clinton's proposed health plan, helped kill off health-care reform.

GODDARD: *Selling Newt's Contract to America*

Now, the duo are readying a series of new spots on behalf of business groups such as the U. S. Chamber of Commerce. This time, they're pushing a key feature of the Contract With America: the so-called Common Sense Legal Reform that proposes to do away with frivolous lawsuits.

VISCERAL MESSAGE. Thanks largely to the success of the Harry and Louise campaign, the market for advocacy ads is booming. And Goddard and Claussen are among the most sought-after guns-for-hire. In the past six months, they say, their outfit, Goddard Claussen/First Tuesday, based in Malibu, Calif., has grown by 50%.

The firm's work doesn't come cheap: First Tuesday charged $60,000 to produce the 30-second tort-reform spot, and it expects to bill some $20,000 more on a monthly basis to run a "grassroots" public-relations campaign on the issue. In addition, First Tuesday gets a 15% commission for placing the ads.

Goddard and Claussen's forte, honed during years of California ballot-initiative fights, is boiling down complex issues to a message so visceral that it inspires viewers to gripe to their elected officials out of fear or rage. "We can create from whole cloth a grassroots lobbying effort," says Goddard. The $17 million Harry and Louise campaign, for instance, generated 250,000 calls and letters to Congress.

Ironically, neither Goddard nor Claussen is a Republican. Goddard got into national politics working on Jimmy Carter's campaign in 1975 and later produced TV spots for Bruce Babbitt and Jesse Jackson. In 1991, he teamed up with Claussen, who already had built a successful lobbying practice serving insurance companies, real estate developers, and nuclear-power utilities. Goddard remains a Democrat and Claussen now calls himself an independent.

That won't stop the duo from coming up with gut-wrenching ads to promote Newt's Contract. So far, they've done one tort-reform spot, featuring a field of Little League players who, one by one, vanish in mid-play as a narrator explains that liability insurance costs their teams more than "bats, balls, and uniforms." But Goddard and Claussen expect eventually to create about three-quarters of the legal-reform campaign, budgeted at as much as $15 million. Other possible themes: paramedics who want to focus on "saving lives" without fear of being sued and the owner of a small shop who is afraid of frivolous suits.

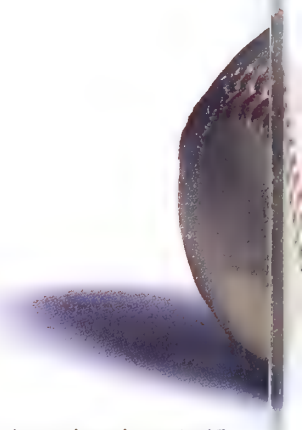
To help ensure that the House would pass tort reform, business groups spent $2 million airing reform ads in Washington in March. But the big bucks really will start flowing on about Apr. 10, when senators head home for spring recess. The commercials will run on CNN, CNBC, Court TV, and *The Rush Limbaugh Show*, as well as on local stations. Claussen is mapping his media buys to target potential swing-vote senators, possibly including John H. Glenn (D-Ohio) and Arlen Specter (R-Pa.). Before long, getting "Harry and Louised" may become a regular Washington occurrence.

By Eric Schine in Los Angeles, with Catherine Yang in Washington

Cooked up in America since 1855.

Handcrafted in America since 186

Pedaled in America since 1865.



Played in America since 1845.

Four out of five Accords sold in America are manufactured here. By people and for people w aim high. And it starts with the little things. Like a zinc phosphate bath before painting, which hel fight rust and corrosion. Extra thick sheet metal, for a strong body that won't give in easily to do

©1994 American Honda Motor Co., Inc.

Performed in America since 1909.

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gs. And layers of sound-dampening materials, to keep your
: nice and quiet. What it all adds up to is the Accord. An
ellent example of American quality for the past twelve years.

The Accord Sedan
HONDA A Car Ahead

SCANDALS

THE SECRET WAR INSIDE GRACE & CO.

A scheme to topple the CEO has brought Grace to grief

The roots of the current management crisis at W. R. Grace & Co. go back to late 1992. J. Peter Grace had fallen ill with cancer, and his longtime lieutenant J. P. Bolduc, former executives say, began pressing the board to name him chief executive. The board—loyal to Grace but knowing the octogenarian executive needed to be eased out—agreed. In 1993, Bolduc became the first person outside the Grace family to head the chemical and health-services company. Peter Grace, who had been CEO for 47 years, remained chairman.

And Peter Grace remained bitter. For the next 2½ years, as former executives and other sources close to the company tell it, Grace simmered while Bolduc stripped him of the rich perquisites he and his family may have regarded as their birthright. Bolduc took away Grace's private Gulfstream IV jet, and he trimmed Grace's personal corporate staff from about 10 to 4. Last November, he insisted that the company disclose in the proxy millions of dollars of perks and loans made to the Grace family. But Bolduc pushed too hard, and the backlash was severe. On Mar. 2, he resigned, citing differences with the board.

What really lay behind Bolduc's fall from grace? First came reports that Bolduc had been forced out after insisting on disclosure of the Graces' perks. Outraged institutional shareholders applied such pressure that Peter Grace and nine other board members agreed not to stand for reelection at the annual meeting on May 10. But many insiders remained disturbed by the way events unfolded at Grace. In a Mar. 23 memo to other board members obtained by BUSINESS WEEK, director Robert C. Macauley complained that "we are living a lie." And, finally, on Mar. 30, the company said publicly that Bolduc had been asked to resign after several employees accused him of sexual harassment—charges Bolduc denies.

The real story, as pieced together by BUSINESS WEEK, however, may be far more complicated. Former executives and others close to the company contend that Bolduc's downfall came after a small group of Grace executives and outside board members became convinced that Bolduc had to go.

A key figure in Bolduc's departure is Constantine L. Hampers, a Grace executive who runs its National Medical Care Inc. unit. It has been dogged by the Food & Drug Administration, which has cited it for selling nonsterile medical equipment several times since 1993—but it is also Grace's biggest profit generator. The company says the problems have been resolved.

As Bolduc moved to centralize Grace's operations and lower overhead, Hampers grew increasingly angry. Hampers says that last December he told the board he would resign when his employment contract expired in 1996. Hampers acknowledges that he wanted Bolduc gone, though he says his threat to leave was not a ploy to oust Bolduc.

Hampers is a complex character. A physician who started NMC in 1968, he sold it to W. R. Grace for approximately $238 million in 1984. Hampers in 1985 was charged in a 14-count indictment with smuggling the skins of endangered Mexican jaguars and ocelots into the U.S. He pleaded guilty to a reduced charge in 1990, according to the company's proxy. He remained very much in charge of NMC, and he didn't think much of Bolduc. Says Hampers: Bolduc "was terrible to work for. He never understood operating. I just did not want to work for him."

Hampers became allied with other Bolduc critics inside the company. A former executive says they include Peter Grace, his son Patrick Grace, and three outside board members—former New Hampshire Senator Gordon J. Humphrey, consultant Virginia A. Kamsky, and Macauley, founder of a Catholic charity. Humphrey and Kamsky did not respond to requests for interviews. Some directors on the 22-member board "felt [Bolduc] was pushing Grace too far," says a former executive whose account was confirmed by several others. "Then Gus Hampers came out of the woodwork. They got together to support Gus Hampers as CEO and get rid of Bolduc."

At some point, a private investigator came into the picture. Hampers says he hired Kroll Associates Inc.—and is personally paying for its services. Hampers

HAMPERS

WHAT REALLY HAPPENED

As CEO Bolduc tightened his grip, his downfall was crafted by a group of Grace executives and board members led by Constantine Hampers. Allegations of sexual harassment were uncovered and used to force Bolduc out. Hampers, who now has investigator Kroll on his payroll, is angling for the CEO job. But institutional investors are balking

KROLL

BEFORE THE FALL: BOLDUC AND J. PETER GRACE

ys he is convinced that there is a cam-
ign afoot to prevent him from getting
e top job at the company, and that is
hy he hired investigator Jules Kroll.
'he purpose was to look into who was
nducting a campaign of innuendo and
mors" against Hampers, Kroll says.
The former executive contends, how-
er, that Hampers actually hired Kroll
investigate Bolduc. Hampers denies
at. "I'm not looking for dirty laundry
n Bolduc]. I'm looking for a conspiracy
ainst me," he says.
Meanwhile, Grace's board in February
unched its own investigation of Bol-
ıc, hiring retired federal Judge Harold
'ler. His original assignment was to
ve an opinion on the necessity of dis-
ɔsing the Grace family perks in the
oxy. Then, allegations that Bolduc had
xually harassed female employees
me up, and Tyler was directed to in-
stigate that issue as well, Macauley
ys.

TE-NIGHT DEAL. Damaging informa-
ɔn on Bolduc was easily found, accord-
g to several former executives who
int Bolduc as a rough-hewn taskmas-
r, though smart and effective. "J. P.
ent around and harassed all the people
the time," says the former execu-
'e. According to a company statement,
'ler told the board on Feb. 28 that
rounds existed to find that Mr. Bolduc
d sexually harassed certain employ-
s." Tyler did not respond to BUSINESS
EEK's request for an interview.
ırough an attorney, Bolduc denies ever
ting inappropriately.
But the Tyler report sealed his fate,
d Bolduc negotiated a $20 million sev-
ance package in a late-night meeting
th director Roger Milliken. In his Mar.
letter to board members, Macauley
estioned the propriety of the payment.
Neither I nor many of the other board
embers have the faintest idea as to
e reasoning," it says.
After the upheaval, Hampers publicly
ered himself as the best candidate to
the next CEO, and Macauley says the
ajority of Grace directors support him.
ıt investors are violently opposed to
e idea, since Hampers is regarded as
ɔ closely tied to the Grace family. The
mpany "sanctioned a witch-hunt
ainst their chief executive," says one
stitutional shareholder who has been
itating for corporate-governance re-
rms. "Our primary objective is that
ıs Hampers not get the job." His hope:
at the litigation-wary board will hire an
tsider as CEO.
After all the *Sturm und Drang* at
ace, though, it may be tough to lure a
od manager to take the job.

By Elizabeth Lesly in New York, with
vil DeGeorge and Peter Valdes-Dapena
Miami

EXECUTIVE SUITE

HOW MUCH SHOULD IT TAKE TO KEEP THE BOARD ON BOARD?

Shareholders are taking aim at directors' lavish benefits

For years, corporate directors have endured the wrath—and the proxy votes—of investors seeking to rein in their CEOs' runaway compensation packages. Now, directors have to worry about another paycheck: their own.

At more than two dozen companies this year, shareholders are seeking to strip directors of the generous retirement benefits they have been awarded routinely since the early 1980s. Among the companies facing such challenges: Avon Products, Woolworth, and McGraw-Hill, the publisher of BUSINESS WEEK. "This is just another way to get something extra for coming to a meeting six or seven times a year," complains Thomas E. Flanagan, president of the Investors Rights Assn., which has sponsored resolutions at 21 companies.

Broad reform probably is on its way. Already, some companies have begun linking directors' pay to performance by awarding stock or options in lieu of or in addition to cash. And in early June, the National Association of Corporate Directors—a widely respected group whose members include CEOs and directors—is expected to release a sheaf of proposals on how directors should be paid.

Shareholder activists have plenty of fodder. Besides annual retainers, which averaged about $30,000 last year, board members typically receive meeting fees, stock options, stock grants, and pensions. The upshot: The average director of a large company got about $83,000, according to a survey of 200 companies by Pearl Meyer & Partners Inc., a benefits consultant.

DITCHING PENSIONS. At American Express Co., for example, directors such as Henry A. Kissinger were awarded $64,000 retainers in 1994. Members who also chair a board committee pocket an additional $10,000. Each director receives options on 1,000 AmEx shares, plus a $30,000 annual pension, $50,000 in free life insurance, $300,000 worth of accidental death coverage, and a $500,000 gift upon death to a chosen charity.

Companies argue that big-money benefits, including pensions, are needed to attract and retain the best directors. Already, though, Alexander & Alexander Services Inc. has agreed to ditch its pension program for directors. Other companies are making broader changes: Travelers Inc. and Scott Paper Co. no longer pay directors fees for attending meetings or chairing committees. Instead, Travelers pays a flat retainer of $75,000—in stock. That's no small sum—but it's a clear step toward moderation.

By John A. Byrne in New York

Board Bennies

Some benefits under fire

BALTIMORE GAS & ELECTRIC Nonemployee directors receive pensions for life equal to their annual retainer, currently at $18,000 a year

PHILIP MORRIS Pensions equal the $26,000 annual retainer, plus 25% of attendance fees up to $6,000 a year, paid for a period equal to years of service

SPRINT After retirement, board members continue to get $35,000 annual retainer, paid monthly, for up to 10 years

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*IBM PC Direct prices and offerings are subject to availability or withdrawal. Price offerings in Canada may vary. Remarketer prices may vary. Shipping and handling charges are extra. *SIAM Research – Buying it in the '90s? September '[illegible] Respondents spoke to modems [illegible] holidays. Please call 1-800-426-7255 for details on IBM's money back guarantee and limited warranty. Copies of limited warranty available upon request. IBM Credit Lease prices are qu[illegible] month to month. [illegible] quote. Lease good through [illegible] 30. Offer [illegible] are subject to change without notice. Lease available to qualified commercial customers only. MB stands for one million accessible capacity. [illegible] system capacity varies. At no additional charge during warranty period. On-site service for first year of warranty available Monday–Friday 8am–5pm in your time zone. Second and third year is customer carry-in service. Ple[illegible]

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For expansion needs: •A SpaceSaver configuration with 3 slots, 3 bays	***For expansion needs:*** •A full Desktop configuration with 5 slots, 5 bays	***For expansion needs:*** •A full Desktop configuration with 5 slots, 5 bays
New lower prices: 450/DX2 **$1574** *IBM Credit Lease $53/month*[1] 466/DX2 **$1666** *IBM Credit Lease $56/month*[1] 100/DX4 **$1862** *IBM Credit Lease $63/month*[1]	***New lower prices:*** 450/DX2 **$1891** *IBM Credit Lease $64/month*[1] 466/DX2 **$1983** *IBM Credit Lease $67/month*[1] 100/DX4 **$2179** *IBM Credit Lease $74/month*[1]	***New lower price:*** Pentium 60 **$2821** *IBM Credit Lease $96/month*[1] ***Additional options:*** •IBM Enhanced 101-Keyboard and Mouse, add $40 •1MB[2] video memory upgrade Pentium 60, add $95 •Internal CD-ROM drive add $199
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RADIO DAYS: *McCaw will stress Nextel's roots as a dispatcher*

TELECOMMUNICATIONS

McCAW IS GETTING A LOT MORE THAN A CHUNK OF NEXTEL

He nabs a top strategic post–and a chance to make millions

What a bargain. On Apr. 5, wireless-phone magnate Craig O. McCaw agreed to pay $12.25 a share for 9.4% of Nextel Communications Inc. That's not only a fraction of the $54 Nextel stock fetched in October, 1993; it's even below the $13.25 at which Nextel closed the day before the deal. If he likes the company, McCaw can exercise options to acquire up to 44 million more shares at prices that top out at $21.50 in six years. Says Steven R. Yanis, senior telecom analyst at Oppenheimer & Co.: "The company just has to be mildly successful and he makes a fortune."

McCaw's sweet deal is likely to infuriate Nextel's long-suffering shareholders—some of whom filed a class action on Mar. 10 accusing company executives of insider trading and making false and misleading statements about their technology. Nextel executives say the suit is without merit. But McCaw's purchase, which could be worth up to $1.1 billion, reflects this reality: Nextel badly needs McCaw, both for his money and for his strategic savvy.

Until a year ago, Nextel could do little wrong, stitching together an impressive nationwide network of radio-dispatch services for fleets of trucks, vans, and taxis. Then came a huge miscalculation, in the guise of a tentative deal by MCI Communications Corp. to pay $1.36 billion for a 17% stake in the company. The goal: To transform Nextel into a system rivaling the big cellular phone companies. But Nextel's network wasn't up to challenging the cellular operators. In August, MCI backed out, deciding it would cost too much to bring Nextel's phone quality up to the expectations of cellular customers. Nextel's stock plunged (chart).

"OUT OF FAVOR." Now, McCaw's cash injection bails Nextel out of a mess. The company needs hundreds of millions of dollars to finish building its national digital network. And it has fallen below the equity-to-total-capitalization test of its bond covenants, limiting its ability to buy the radio dispatch operations it needs from Motorola Inc. and others.

Beyond that, McCaw likely will help guide a company that has some major strengths: national digital coverage and an established customer base. "What you have is a company out of favor with nearly everybody and nearly written off—which still has a viable business case. And, without question, it is substantially underpriced," says Herschel Shosteck, president of Herschel Shosteck Associates Ltd., a market researcher.

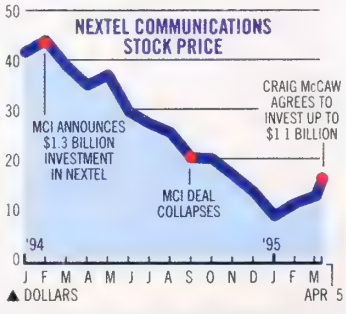
McCaw, who will head a newly formed "operations committee," plans to return Nextel to its roots in two-way radio, a nearly 20 million-person market, while working to expand into white-collar sectors such as law firms. Where Nextel has an advantage over cellular, he says, is in permitting instant communication among members of a predefined work group. Within this "group" mode, all customers have to do is press the talk button and talk—no dialing required. That's suited, McCaw says, for "stream-of-consciousness" communications—say, the fast-paced back-and-forth that comes in the throes of closing a deal. It's no coincidence that Nextel Communicators were employed in the all-night session where the terms of McCaw's investment were thrashed out.

It's a splashy return to the spotlight for McCaw, who seemed outmatched in the recent auctions for airwaves for personal communications services (PCS). At the end of the action, McCaw, despite active bidding, came away without any licenses. He says now that he "couldn't have been happier with the outcome," since in bidding on a variety of properties, he made sure that no potential competitor got a better deal than AT&T, of which his family acquired 3% from its sale of McCaw Cellular Communications Inc. last year. Says McCaw: "Licenses should go for fair value, and if they weren't, they should go to me."

His Nextel deal has little to do with PCS, McCaw says. Analysts agree: Nextel has been down that path before, with disastrous results. McCaw simply is buying into Nextel at the right time, and at a price that leaves him with assets for other opportunities. "I view myself as flexible," McCaw says. Expect to hear more from the wizard of wireless.

By Peter Coy in New York, with Kathy Rebello in San Francisco and Mark Lewyn in Washington

THE McCAW EFFECT



DATA: BLOOMBERG FINANCIAL MARKETS

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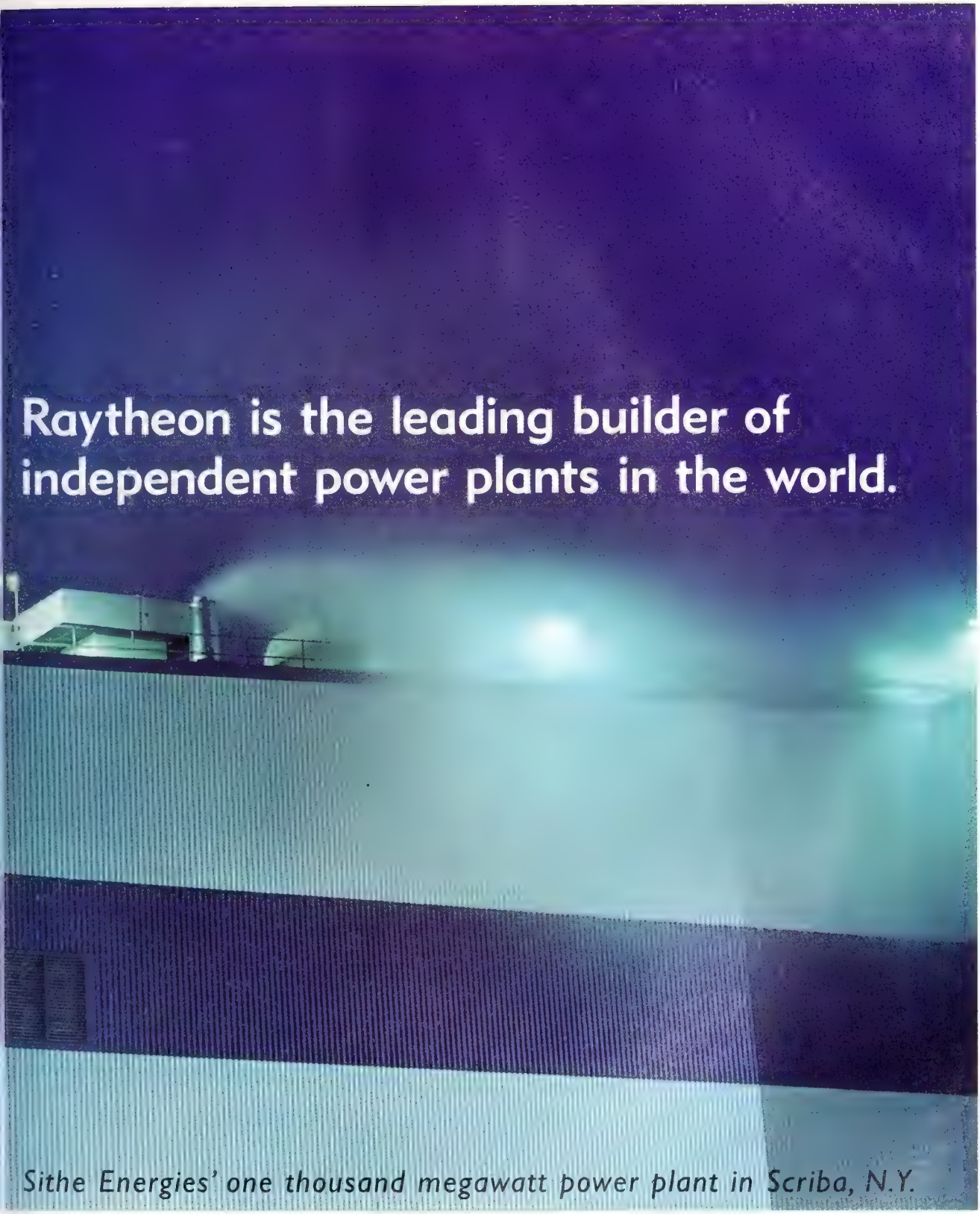

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EXPECT GREAT THINGS

COMMENTARY

By John A. Byrne

HOW TO SUCCEED: SAME GAME, DIFFERENT DECADE

I will be here year after year after fiscal, never take a risk-al, year.

—Twimble, the mail room boss

Twimble has worked the mail room year after year, but he has never sorted a Federal Express package. His young charge J. Pierrepont Finch, the consummate corporate climber, wouldn't know an Armani power suit from a seersucker job. These are characters solidly rooted in the 1950s—that comparatively stable era when American business enjoyed the profitable luxury of a less global world.

No matter. It is a measure of the inevitable, fallible humanity of business organizations that *How to Succeed in Business Without Really Trying*, the exuberant 1961 musical parody of corporate life whose revival opened on Broadway Mar. 23, still hits the mark. Finch, played by Matthew Broderick, is a timeless character in an equally timeless endeavor: Getting Ahead. His employer, World Wide Wicket Co., is the stodgy, bureaucratic archetype of all that still remains wrong with Corporate America.

BACKSTABBER. Anyone who has ever worked in an organization—that is, almost all of us—will feel at home watching *How to Succeed...*, which was inspired by the title of Shepherd Mead's whimsical screed of rules for executive success published in 1952. The man who gets ahead at World Wide knows how to ingratiate himself with the boss, how to pick the right teams, and how to stab the right backs.

The lesson in Broadway's revival? All the hierarchy-busting of the past decade hasn't put an end to office politics. It simply has changed the nature of the game. We snicker at Finch's obvious, elbows-out machinations, such as dispatching his secretary to speed his rivals' demise or buttering up the boss by pretending to share his alma mater. But we see the same tricks on the job every day—just camouflaged better.

How to get promoted? Read and write memos, Finch is told. "You will soon find there is little information of any value in them, but they are mighty handy" because they afford you the chance to compliment the memo writer—especially if he's a more senior executive than you. "Write them on any subject," goes the advice. "Small matter what you write them about, as long as you write them often. No one will read them, but someone will notice your name at the top." So it is now—only, electronic-mail is the medium of choice.

GETTING AHEAD: *Broderick and Mullally (above) in a revival of the '61 musical Robert Morse (left) made famous*

Granted, there's something quaintly antique about the advice Finch follows in his climb from mail room clerk to chairman of the board. The right employer "must be big," he is counseled. "In fact, the bigger the better. It should be big enough so that nobody knows exactly what anyone else is doing." At World Wide, an employee's success depends more on risk avoidance and lucky breaks than on brainpower and diligence. The company's managers relinquish their identities to become little more than yes-men (only men, of course), ever in search of the next step on the corporate ladder.

A COUP. World Wide, in other words, is exactly the sort of company ripe for a boardroom coup and an outside chief executive eager to shake things up and diversify its workforce. Today, obviously, big no longer is beautiful. And service companies, far from the dead-ends Finch is instructed to avoid so studiously, are where the economic action is.

And today's business world surely depends more on genius than on form. "Never take a risk-al?" Let's hope not. Yet, much of *How to Succeed* rings frighteningly true. We know it's a joke; in this global market, it has to be. But in our gut, we wonder why so little has changed.

Byrne writes on management.

How to Choose an Employer

Sage counsel from How To Succeed In Business Without Really Trying

SIZE
The bigger the better. It should be big enough so that nobody knows exactly what anyone else is doing.

LOCATION
It should be in a big city. New York City is best, but Chicago or Los Angeles will qualify, too.

INDUSTRY
Be sure yours is a company that makes something, and that someone else actually has to make it. Beware of service organizations. They will give you few opportunities to relax or to plan your future.

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In Business This Week

EDITED BY KEITH H. HAMMONDS

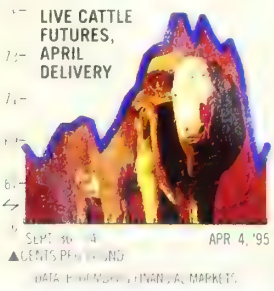
RAYTHEON GETS ITS WALLET OUT

JUST ABOUT EVERYONE ELSE in defense electronics has merged, acquired, or consolidated. On Apr. 3, Raytheon finally followed suit, proposing a $2.3 billion buyout of E-Systems, the nation's leading maker of top-secret spy equipment. The purchase will add $3 billion in debt to Raytheon's books. But Chairman Dennis Picard says he remains in acquisition mode. Next on his list: a nondefense business that will help him diversify. Picard isn't the only one on a shopping spree. Consolidation has left the defense electronics industry with just four major players, all with sales of $10 billion or more. And across industries, U.S. mergers and acquisitions were up 35% in the first quarter of 1995 from a year earlier. Wall Street bankers say the dealmaking shows no signs of slowing.

CLOSING BELL

HARDLY BULLISH

The First Lady's favorite commodity is moving again. Live cattle futures have plunged amid a supply glut. Prices fell 10%, to 67.35¢ per pound, before firming at 70.175¢ on Apr. 5. The big slide began on Mar. 17, when a tally of steers fattening at feedlots came in 10% higher than expected. Lot operators "could not move the meat as fast as their supply was coming at them," says Don Roose of U.S. Commodities, a hedging consultant. Weak retail demand for beef makes a rally unlikely soon, analysts say.



DETROIT HITS A POTHOLE

YES, THE NUMBERS LOOK dismal: First-quarter vehicle sales were off 7% from 1994 levels at Chrysler, 8% at GM and 4% at Ford. And Chairman Robert Eaton warned that Chrysler's earnings could suffer in both the first and second quarters. But Detroit's future isn't so bleak. Production was up at both GM and Ford. And GM's numbers were its highest for a first quarter since 1989, though it now says second-quarter production will come in some 1% below the year-ago quarter. Retail incentives, while rising, remain at relatively modest levels. First-quarter earnings at GM and Ford, in fact, should improve over last year.

IN INDIA, BEEF-FREE MICKEY D

INDIA'S SACRED COWS CAN stop fretting: McDonald's won't be requiring their services. The burger behemoth announced it will open its first franchises in India early next year—but without Big Macs. Deferring to the country's Hindu tradition, which prohibits the consumption of beef, the company instead will serve chicken and fish, as well as vegetable burgers. It's the first time the fast-food company has excluded beef from its menu. New Delhi consultant Dilip Cherian thinks other multinationals should follow McDonald's culturally sensitive lead: "It's not going to be one grand American burger that sweeps through India," he says.

HEADLINER: PETER N. LARSON

A NEW HAND AT BRUNSWICK'S HELM

The last outsider named heir to the top job at boatmaker Brunswick, John Reilly, lasted less than a year, departing in June, 1994, after clashes with Chairman Jack Reichert and his chief deputy, Dianne Yaconetti. Now comes Peter Larson: On Apr. 3, Brunswick announced Larson would become CEO, taking over as chairman when Reichert retires this fall.

Larson, 55, helped guide Kimberly-Clark's dash into the diaper business in the 1980s, then steered Johnson & Johnson's consumer and personal care group, expanding Tylenol's franchise. "He brings a lot of energy and excitement," says Sanford C. Bernstein analyst Kenneth Abramowitz.

Brunswick has mixed prospects. The company's financials are strong: It posted net income of $129 million last year, up 137%, on sales of $2.7 billion. But the boatmaker has to meet new emissions laws for engines, and it faces competition from rejuvenated rival Outboard Marine. And Larson must maintain cordial relations with Reichert and Yaconetti. His advantage there: He'll run the show from day one.

By Kevin Kelly

A LUCKY STRIKE FOR U.S. SMOKES

TRADE DEFICIT? NOT FOR THE tobacco industry. U.S. cigarette output rose 10% in 1994, to 726 billion—the most since 1981—thanks largely to a trade surplus that ballooned by 45% from the year before, says the Agriculture Dept. Sales are surging in Eastern Europe, where the quality-starved masses finally can afford Marlboros—and pay with solid currencies. And in the U.S., smoking diehards, charmed by lower prices, have ignored the antismoking crusade: Domestic demand stabilized in 1994 after 10 consecutive years of decline.

NEW NAMES ON THE DEAN'S LIST

THE B-SCHOOL SHUFFLE: Dartmouth's Amos Tuck School of Business on Apr. 3 named Paul Danos, senior a sociate dean at the Universit of Michigan's B-school, as i new dean. Danos, 52, w the architect of a five-year e fort that led to dramat changes in Michigan's innov tive MBA program. He lande the job at Tuck shortly aft Harvard B-school's Leona Schlesinger withdrew fro the race. In so doing, Schl singer, a senior associa dean, made himself a like front-runner to succeed Ha vard Dean John McArthur.

ET CETERA . . .

- Boone Pickens gave tw board seats to a dissident i vestor, averting a proxy figl
- General Motors will unlo its National Car Rental ur for as much as $1.5 billion.
- Ian Diery, a key executiv quit Apple after a reorga ization left him in the cold
- Gulf Air called off its ord for Boeing 777s, which cou have been worth $1.7 billic

ITED BY OWEN ULLMANN

D'AMATO'S BARBS COULD TURN INTO BOOMERANGS

lfonse M. D'Amato (R-N. Y.) won the nickname Senator Pothole thanks to an uncanny ability to deliver the good-ies for his constituents. But with a Democrat in the ite House, the loquacious Long Island lawmaker is earning iself a new moniker: Senator Potshot.

D'Amato has staked out a role as the GOP's partisan point n. His unrelenting attacks on the White House—from the st Lady's lucrative commodities trades to the President's billion Mexican-peso bailout—are aimed at further weak-ng the Administration and firming up the Republicans' d on the Senate. And by taking the lead, D'Amato, head of iate Majority Leader Bob Dole's Pres-ntial steering committee, lets the Kan- Republican stay above the fray.

RVOUS INVESTORS. But the three-term ator's surprise move on Mar. 30 to ke U. S. aid to Mexico conditional on igress' approval risks alienating fellow publicans, crucial Democrats on the iking Committee he heads, and the ll Streeters who in recent years have wered him with hundreds of thou-ds of dollars in campaign donations.

THE LIP: *He makes a tempting target*

D'Amato apparently is playing to pop-t resentment of the peso rescue. "It's king, middle-class Americans bailing out wealthy, sophis-ted investors," he rails. The gambit backfired. Senate publicans and big Wall Street investors were unnerved, rying that D'Amato's move could worsen Mexico's crisis. en House Speaker Newt Gingrich panned the tack as "a mistake." Groans Senator John McCain (R-Ariz.): "It's ab politically, because the President can point to a Repub-n-controlled Congress if things go wrong."

And D'Amato's barefisted tactics have infuriated some nocrats, whose bipartisan support he will need later this r for major legislation such as bank reform or a possible rhaul of the shaky thrift insurance fund. For now, many feel the New Yorker is playing politics on the Mexico issue. Senate Minority Leader Thomas A. Daschle (D-S. D.) gripes that D'Amato's only motive is "to embarrass the President."

D'Amato's broadsides have kept the Administration off balance, and there's no sign he'll let up. He tortured Clinton-ites at Whitewater hearings last summer and is expected to resume them later this year. His introduction of two bills to bar Iran trade sent the State Dept. scrambling to toughen its stance. Plus, his panel could stage bruising confirmation hear-ings for Clinton's nominee to replace retiring Federal Reserve Board Governor John P. La Ware—as well as the President's choice for Fed chairman when Alan Greenspan's term expires next March.

Back in New York, "Al the Pal" has built a well-oiled political machine. He has lined up state GOP support behind Dole's Presidential bid—with his protégé, New York Governor George E. Pataki, leading the parade. Now he's solidifying his base inside the Beltway. When not slamming Clinton, he's drumming up campaign dollars as the new chief of the National Republican Senatorial Commit-tee, raising an impressive $6.5 million since January. "D'Amato is a force to be reckoned with," says GOP strategist Kathleen Cooney Severin.

Still, D'Amato's penchant for controversy is risky. He barely squeaked back into office in 1992, and his New York approval ratings have dropped to 33% from a peak of 63% in 1986. Antics such as his mocking of Lance Ito, the judge in the O. J. Simpson case, with a fake Japanese accent on an Apr. 4 radio show don't help. "It's hard to move your poll numbers up again when your persona is as well-defined as D'Amato's," says Marist Institute pollster Lee M. Miringoff. Indeed, to raise those numbers as part of the Washington leadership, he'll have to produce results, not just sound bites.

By Amy Barrett with Mary Beth Regan

CAPITAL WRAPUP

D WAY, JESSE

Despite support from GOP leaders, a an by Senate Foreign Relations airman Jesse A. Helms (R-N. C.) to ift export-promotion programs from e Commerce Dept. to the State ept. is going nowhere. Big Business ars Foggy Bottom pinstripes will nore trade. GOP members of the nate Commerce and Banking pan-s decry Helms's plan as a turf-grab, d even State opposes it. If Com-erce is axed, business wants a new port-promotion agency.

FDA OVERHAUL AHEAD?

▶ Republicans and industries clamoring for regulatory easing at the Food & Drug Administration have an unexpected ally. Representative Ron Wyden (D-Ore.), a hero of consumer advocates, has embraced key changes. He favors less pre-approval product testing, fewer export restrictions on unapproved medical devices, and shifting some FDA reviews to outside testing labs. Many Democrats and consumer groups fear such moves could lessen food and medical safety.

DOLE'S KEMP CONNECTION

▶ They bloodied each other in 1988 GOP Presidential primaries. But intimates say former Housing & Urban Development Secretary Jack F. Kemp will soon endorse Senate Majority Leader Bob Dole's 1996 Presidential bid. Former Kemp aide Scott Reed is already on Dole's team as campaign manager, and former Representative Vin Weber of Minnesota, an avowed Kempite, is signing on. Kemp could woo GOP supply-siders who worry that Dole isn't a true tax-cut believer.

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JAPAN

WHEN DO THE PARACHUTES OPEN?

Japan's market is in free fall, and the slump could hit the economy hard

First came the Kobe earthquake. Now, it's the Tokyo yen-quake. As the Japanese currency soars to incredible heights against the hapless dollar, the Tokyo stock market is once again taking it on the chin.

Already down 20% this year—and 60% from its 1989 peak—the widely watched Nikkei stock average is nearing the point where the Finance Ministry has traditionally stepped in with massive purchases of shares to pull it back from the brink. With no sign of a rescue package emerging, International Trade & Industry Minister—and former Finance Minister—Ryutaro Hashimoto has even begun calling for a comprehensive plan to "revitalize" the stock market through lower interest rates, trading taxes, and brokerage commissions.

But in the absence of dramatic steps to brake the turbocharged yen (page 34), buoy the sagging economy, and boost anemic corporate profits, the Nikkei stock average seems doomed to fall even further. With the Yamaichi Research Institute of Securities & Economics estimating that manufacturers' earnings will fall 1.7% for every one-yen rise in the currency's value agains the dollar, most analysts figure the Nik kei could decline an additional 1,50 points, to around 14,000, by summer.

Some even think the average wi have to slip below 13,000—back t where it was in 1986—before stock can again compete with the 3.5% yield on government bonds. Indeed, wit Japanese stocks still fetching an aver age price-earnings ratio of 59, Morga Stanley & Co. analyst Alexander Kir mont estimates that corporate earn ings would have to climb 48% to refle today's market levels.

APAN'S WEAK LINKS AS TOCK PRICES TUMBLE

S Lenders already face as much .6 billion in unrealized losses on ortfolios. A Nikkei below 15,000 mean even more losses and leave for some banks, including Long-Credit and Daiwa, below interna- y agreed upon minimum levels.

ERS The top 14 securities houses ected to post $2.9 billion in loss- he fiscal year ended Mar. 31, urth straight annual deficit. With rading volume running 40% below ven levels, a shakeout among brokers appears imminent.

NSURERS As stock losses pile up, s are scrambling to meet ed dividend payments and policy . Insurers already account for f the $585 billion in unrealized y losses that Japanese investors ffered on U.S. bond purchases.

CONOMY The soaring yen is hopes for a boost from rebuild- damage of the Kobe quake. GDP could remain under 1% this year a possible rate cut, an expected lion supplementary budget, and d-up public-works outlays.

DATA BUSINESS WEEK

s dire forecasts roil the market, kers, traders, and bureaucrats are king over the body blow another e drop in stock prices might land to Japanese financial system and over- economy. Because the capital bases most of the nation's financial institu- s are tethered to share prices, the e of merging or bailing out weak- l brokerages, banks, and life-insur- e companies is bound to rise as the kei erodes (table). In fact, with e banks' capital levels already just ade over interna- ally agreed-upon mums, a costly fi- cial restructuring help keep credit t in an economy ady handicapped he strong yen.

NEWS. Economist ert A. Feldman of mon Brothers Inc., one, sees gross do- tic product growth ust 0.2% in 1995 ite earthquake re- truction efforts a $12 billion sup- plemental government spending plan now in the works. That means profits may rise as little as 9% in '95. Consumer spending is flagging, too. "Retail sales have looked terrible," notes Lehman Brothers Inc. economist Andrew Shipley.

The economic bad news is casting a wide pall over Kabutocho, Tokyo's Wall Street. Next month, Japan's top 14 brokerages are expected to announce losses of $2.9 billion for the fiscal year ended Mar. 31—their fourth consecutive deficit. One reason: Goldman, Sachs & Co. analyst David Atkinson estimates that Japan's brokers need to trade $5.8 billion worth of stock daily to break even. But market turnover is running at just $3.4 billion. And while Wall Street and European firms have been ruthlessly cutting costs—Salomon Brothers has reduced its Tokyo staff by 25% since 1990—Japan's brokerages have dragged their heels.

True, local brokers have axed part-timers, farmed out unproductive workers to distant offices, and cracked down on costly late-night drinking sessions in the Ginza. Daiwa Securities Co., where the most recent fiscal year's losses are expected to total $395 million, even moved most of its operations from fancy digs across from the Tokyo Stock Exchange to an unassuming beige building bordering a Shell filling station. But traditions of lifetime employment have kept brokers from slashing payrolls. Atkinson thinks they have 22,200 too many employees.

While big brokers such as Nomura Securities Co., with a capital base of some $20 billion, could lose money for years without running into life-threatening trouble, many other firms are not so fortunate. Take Sanyo Securities Co., which during the bubble-economy years spent $93 million building one of Asia's biggest trading rooms on reclaimed land in Tokyo Bay. Last year, as Sanyo's capital dwindled, the Finance Ministry ordered Nomura and several commercial banks to extend $465 million in aid. But that did not stem the decay. Expected to report a loss of $360 million, Sanyo may now be looking for a suitor. With Nomura struggling to stem its own losses, "maybe a good strong bank will take care of my company," says one Sanyo source.

In fact, Japanese banks may be the salvation of the smaller firms—but they may be the bane of the larger ones. With the Finance Ministry allowing banks to get into trading and underwriting for the first time in postwar history, 16 already have set up securities units, including Daiwa Bank Ltd., which took over troubled Cosmo Securities Inc. last year. How far banks can go to bail out other ailing brokers, of course, will depend in part on how much they will have to absorb on their own books if the Nikkei keeps sliding. If the Nikkei settles at 14,000 by the end of the current fiscal year next Mar. 31, reckons Koyo Ozeki, a analyst with IBCA Ltd. in Tokyo, write-offs on shares could go as high as $50 billion.

RADICAL THEORIES. Analysts are also casting a gimlet eye on life-insurance companies. The industry has long relied on stock-market gains to pay dividends and meet promised returns on policies of 3% to 5%. However, some life insurers, including Chiyoda Mutual and Mitsui Mutual, have come close to depleting their unrealized gains. Worse yet, life insurers are considered to be the leading victims of the $585 billion in foreign exchange losses that Merrill Lynch & Co. economist William Sterling estimates Japanese investors have taken on U.S. Treasuries.

In the face of mounting financial and economic stresses, Bank of Japan Governor Yasuo Matsushita has nudged money-market rates modestly lower in recent days, and many traders expect him to cut the record-low 1.75% discount rate by 50 basis points before long. But Toshimasa Fujii, Japanese country manager for McGraw-Hill Inc.'s MMS International unit, thinks the rising yen will force Matsushita to slash the rate by as much as a full percentage point as early as mid-April.

Perhaps even more radical steps will be needed to pull the market out of its funk. Morgan Stanley's Kinmont, for example, is urging Japan's cash-rich corporations to hike their dividends and form large holding companies to buy back massive quantities of shares. "The only way out is a destruction of equity," he says. If any market is open to radical prescriptions right now, Tokyo is the one.

By Brian Bremner in Tokyo, with William Glasgall in New York

ROAD WORK Rebuilding highways after the Kobe quake

GERMANY

MERCEDES CAN'T SHIFT INTO CRUISE CONTROL YET

Its savage cost-cutting has worked. But there's more to do

When Helmut Werner slipped into the driver's seat at Mercedes-Benz as chief executive in January, 1993, the company was in sore need of a major overhaul. Losses were piling up, its luxury autos were overpriced, and costs were 30% above such competing models as Toyota's Lexus. Werner unleashed a whirlwind of change at the century-old auto and truck maker—and looked forward to the payoff.

Although Mercedes is now back in the black, there'll be no shifting into cruise control. It has rebounded largely because of Werner's cost-cutting moves (table). But now, Mercedes—like all German manufacturers—faces higher hurdles to global competitiveness. Since Jan. 1, the mark has soared 12%, to about 71¢—13% more than the 62½¢ rate at which Werner says he would feel "very comfortable."

On top of that, the auto industry's Mar. 7 settlement with the IG Metall labor union will add more than 10% to Germany's wage bills by December of this year. Says John Lawson, European autos research director for DRI/McGraw-Hill in London: "Mercedes' emergency cost-reduction program seems to have worked. Now, the question is whether they have the stomach to attack costs continuously."

FIGHTING CHANCE. Werner doesn't intend to slow down now. Mercedes boosted productivity 30% over the last two years, he says, allowing the company to turn out 110,000 more cars per year with 36,000 fewer people. "We are only about halfway through the program," he says. "There's still lots of room for improvement." He wants to build on early gains: Revenues soared 10%, to more than $50 billion, in 1994, thanks to increases of 17% for cars and 14% for trucks. In contrast to its operating losses of $905 million in 1993, Mercedes was $1.4 billion in the black last year, Commerzbank figures.

Now, Werner aims to make cost-cutting a way of life. He is looking into adding more plants abroad to the ones already in the U.S. and France. Mercedes is also stepping up its reliance on lower-cost, outside suppliers. They nov provide 55% of its components, an Werner wants to raise that to 60%. A joint program with suppliers, called Tan dem, delivered $1.1 billion in saving last year and is scheduled to spring a additional $700 million this year.

Werner's moves have been so radi cal that he has a fighting chance. One c his first steps was to junk the old cu ture in which engineers dominated an marketers took a backseat. Mercede traditionally priced models on a cost plus basis. Since Werner took the to job, the new gospel is to set prices ac cording to the competition—and the produce to that price.

The toughest test of the new policy i the U.S. market. Werner started b launching the C-Class compact in 199 at about the same base price, rangin from $30,000 to $35,000, as prior ve sions. Then, he laid into existing line such as the popular E-Clas of midrange cars. U.S sticker prices for the 199 model E320, for instanc were set at $42,500, 15 less than its predecess 300E. And last fall, the r vamped top-of-the-line S Class 1995 models we priced 7% to 10% cheape than 1994 models.

Dealers are delighte Says James D. Evans, pre ident at L.P. Evans Me cedes-Benz in Miami: "Th restructuring of price worked. In 1994, the S-Clas was the slowest moving the segments. Right no it's the strongest."

CITY CARS. Werner is als bringing out new cars part of his effort to kee prices competitive. Produ tivity on the new E-Clas scheduled for launch in E rope this summer, will 20% to 30% higher than the old model, enablin Werner to sell better-equipped cars the old sticker price. And he's bringin out new lines of premium small ca such as the micro-minicar and subco pact A-Class city car, both due in 199

Werner brags that he'll eventual sell 200,000 A-Class cars a year in E rope priced at $14,300 or less. That's tall order. But if he can make prof on small cars without denting the ma que's reputation for quality, he'll ha Mercedes firmly in the fast lane.

By John Templeman in Bonn, w David Woodruff in Detroit

SHRINKING STATUS: *Werner and a micro minicar*

HELMUT WERNER REDESIGNS MERCEDES

- Slashes German payroll by 13% to 148,000 in two years
- Starts auto assembly in the U.S. and France
- Forces managers to meet market-driven prices on new models
- Launches new models to capture big productivity gains
- Aims to increase annual production by 70%, to 1 million cars, by 2000

DATA: COMPANY REPORTS, BUSINESS WEEK

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VIETNAM

WHAT'S KEEPING U.S. COMPANIES OUT OF VIETNAM? THE U.S.

Without diplomatic ties, financing is tough–and deals are lost

With $7 billion worth of infrastructure projects on the drawing boards, Vietnam is a magnet for Caterpillar Inc.'s bulldozers and excavators. After President Clinton lifted an 18-year trade embargo in early 1994, the heavy-equipment maker moved aggressively, opening a dealership in Hanoi and bidding on a $10 million mining contract.

But because Washington doesn't have full relations with Vietnam, Cat couldn't get cheap financing from the likes of the U.S. Export-Import Bank. So last month, the contract went to Japan's Komatsu Ltd. "Without access to competitive financing, we'll lose millions more dollars in contracts this year," says Anthony Salzman, president of V-TRAC, Cat's dealer in Vietnam.

BIG HANDICAP. While Vietnam is officially open to U.S. companies, it is anything but a level playing field for Americans (table). Until Washington restores diplomatic ties, Vietnam is ineligible not only for U.S. Export-Import Bank financing but also Overseas Private Investment Corp. guarantees, risk insurance, and other subsidized credits. The U.S. has "a very serious handicap," says J. Daniel O'Flaherty, president of the newly formed Coalition for U.S.-Vietnam Trade in Washington.

Despite such moans from the business community, the White House is skittish about upgrading ties with Hanoi. U.S. officials fear they will unleash a torrent of criticism from families of former prisoners of war and missing soldiers, and refocus attention on the President's avoidance of military service. If Clinton doesn't act by fall, the Presidential campaign could keep the issue on the shelf until 1997. That has prompted a loose alliance of U.S. companies to lobby for speedy renewal of diplomatic relations. Many executives hope the 20th anniversary of the conflict's end on Apr. 30 will be a healing event that will allow Clinton to move forward.

Until Clinton acts, many agricultural exporters and manufacturers of big-ticket capital goods see lucrative deals passing them by. Just ask Unisys Corp. It went all-out to reel in computer orders from Hanoi, flying four officials to Singapore for a software demonstration. But Hanoi chose European equipment—with European financing.

SO MANY CHOICES: *U.S. consumer goods in Ho Chi Minh City*

DOING BUSINESS IN VIETNAM:

A FEW ADVANCES...

- Some 70 U.S. companies have licenses to do business
- Oil giants such as Mobil and Occidental Petroleum are actively exploring offshore
- American consumer products–from Pepsi to Motorola pagers–are hot sellers

...AND SOME PROBLEMS

- American companies rank 13th in direct investment, with only $270 million worth of signed contracts
- A lack of U.S. government guarantees, political risk insurance, and subsidized trade finance hurts sales and investment

DATA: COMMERCE DEPT., U.S.-VIETNAM TRADE COUNCIL

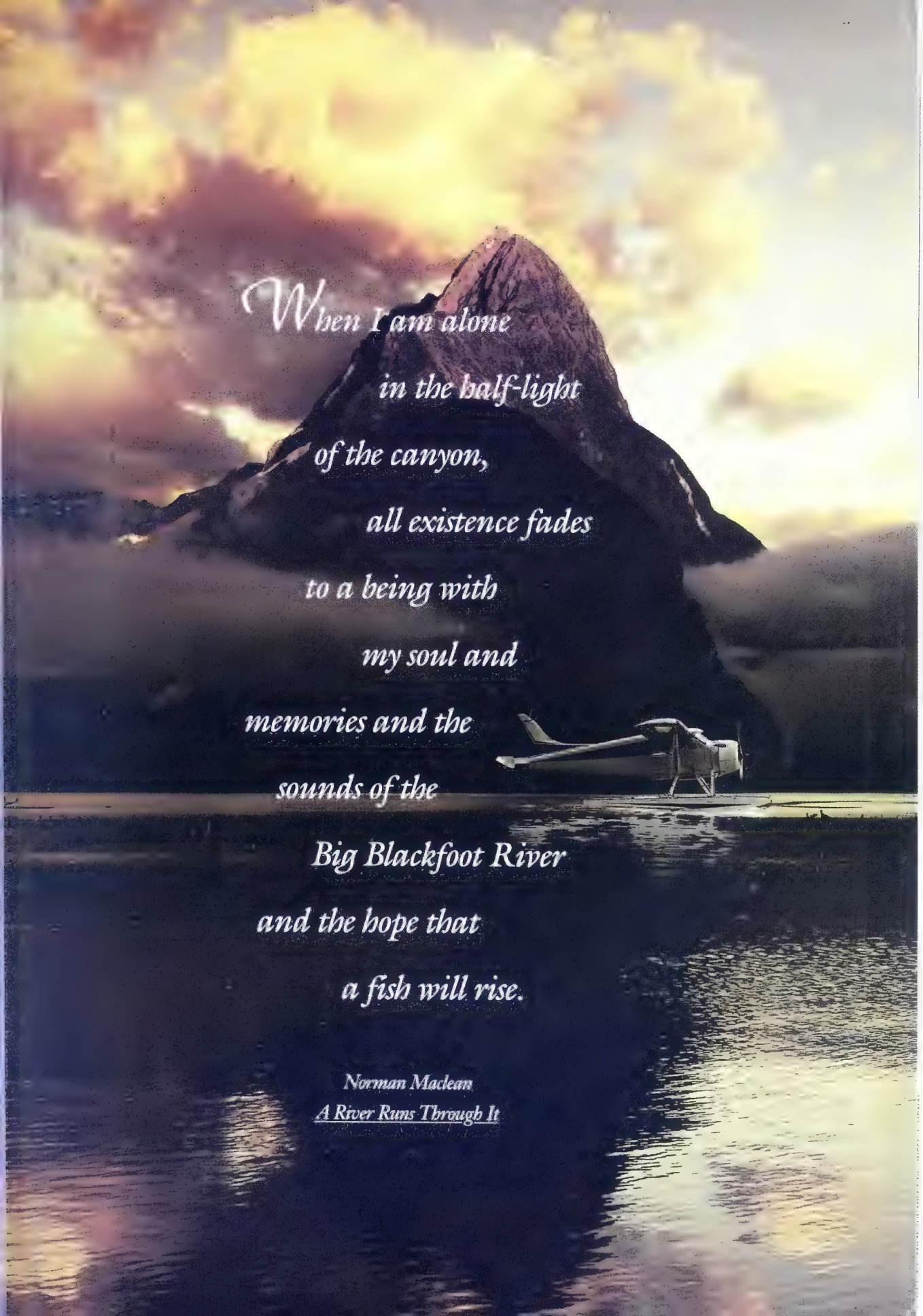
Not all U.S. companies are hampered by the lack of subsidized financing, particularly consumer-products makers. Convenience stores carry Heinz ketchup and Kraft salad dressing. Coca-Cola Co. and PepsiCo Inc. have opened bottling plants. And a Baskin-Robbins ice cream parlor opened in Ho Chi Minh City in January.

PIGGYBACK RIDE. In more capital-intensive industries, though, the lack of diplomatic relations hurts. For instance, Mobil Oil Corp. is participating in two drilling ventures off Vietnam's shores. If petroleum is discovered, Mobil says it will need outside financing to help defray high production costs. One complication: Without normalization, American corporations can't claim a U.S. credit for taxes paid to Vietnam. "That lowers the return on deals, making it harder to get financing," a Mobil spokesman says.

To get a foot in the door, some U.S. companies are piggybacking on ventures led by foreign outfits whose governments are doling out aid to Hanoi. Black & Veatch, a Kansas City (Mo.) engineering firm, has teamed up with Canada's Stanley International Group Inc. to bid on an $87 million water-treatment project for Ho Chi Minh City. "The only reason we are on the [unofficial short] list is that we are with Canadians," observes Charlie Sievert, Black & Veatch's Vietnam manager.

U.S. companies are urging Senator John McCain (R-Ariz.)—a former prisoner of war—and other Vietnam veterans on the Hill to endorse diplomatic recognition, thus giving Clinton political cover. McCain, who will visit Vietnam in mid-April, is sympathetic to the idea but hasn't made a decision. For their part, some Administration officials want to put U.S. business opportunities over MIA concerns. But in Vietnam, U.S. policy is still largely shaped by past events rather than current interests.

By Amy Borrus in Washington and Michael Collins in Hanoi



When I am alone
in the half-light
of the canyon,
all existence fades
to a being with
my soul and
memories and the
sounds of the
Big Blackfoot River
and the hope that
a fish will rise.

Norman Maclean
A River Runs Through It

INT
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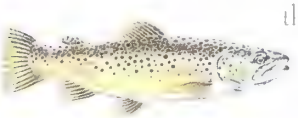

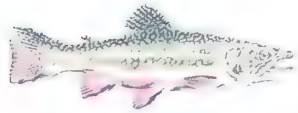

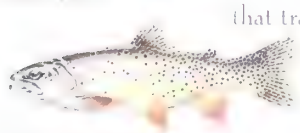

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DITED BY STANLEY REED

HUNGARY GETS THE MESSAGE FROM MEXICO: REFORM OR ELSE

Since throwing off the Soviet yoke in 1989, central Europe's emerging democracies have been struggling to find a comfortable mix of socialism and capitalism. ney've opened up their markets but tried to hang on to the ate-paid social benefits that came with the old communist stem. Nowhere has nostalgia for the past been stronger an in Hungary, whose Prime Minister, Gyula orn, served as a top official in the old goulash gime.

Since taking power in 1994, Horn has dithered reform, driving a succession of free-market des from office. But the Mexican crisis has own the whistle on this game. Foreign investors took a look at Hungary's growing $28 billion reign debt, forced up interest rates, and basilly told Horn that if he didn't get public financ under control, Hungary wouldn't get another me. "We are talking about a credibility cris," says Lajos Bokros, whom the chastened orn has just appointed Finance Minister. "Nody will support us if we don't put our own use in order."

"Nobody will support us if we don't put our own house in order"
LAJOS BOKROS

THE WORKS. Bokros, a former stock exchange ead, and the new National Bank of Hungary ief, Gyorgy Suranyi, are dishing out a dose of ality. The well-regarded twosome, who have en soulmates since bunking together in the rmy in the 1970s, have already come up with emergency package. It aims to cut the $3.7 llion current account deficit by hiking tariffs d to breathe some life into exports by devaluing the forint. ney've also jacked up interest rates to put the squeeze on % inflation.

Bigger things are in the works. They will soon try to get rliament to sign off on a new budget that slashes the $3 bin deficit almost in half. Among the sacred items to be mmed are the child-care allowance, maternity leave, and unemployment insurance. Bokros also wants to eliminate 15% of the bloated federal bureaucracy. He eventually aims to put in private pensions and insurance schemes.

So far, their plan is getting good reviews from investors. "It'll give more oxygen to Hungarian industry," says Peter Wohl, vice-president of big lightbulb maker GE-Tungsram Co. in Budapest. But the public doesn't like the benefit trims. A recent poll found two-thirds against the plan.

Bokros' blunt-spoken approach isn't going to help. "My philosophy is quite simple," he says. "You can only have more transfers to the needy after you have a well-balanced economy."

NEW BOYS. Such comments have not endeared him to the old guard. Two leftist Cabinet officials have already resigned over the plan, and the powerful labor unions are quibbling over the details—though they acknowledge the need for cuts.

So far, Horn is backing his new boys, who are technocrats without apparent political ambitions. His support gives the reformers a pretty good shot at success, because his Socialist party has a solid, 54% majority in parliament. "There is no option," says Laszlo Pal, the Socialist Industry & Trade Minister.

But further tests of Horn's commitment will come when Bokros tries to rev up the privatization program that Horn has allowed to languish. With no election scheduled until 1998, Horn can afford to take some risks.

Hungary's new reform efforts will be closely watched by neighboring countries such as Poland and the Czech Republic, which face similar dilemmas. With money tighter than ever, there is a lot more urgency to figure out what to keep from the old system—and what to discard.

By Karen Lowry Miller in Budapest

GLOBAL WRAPUP

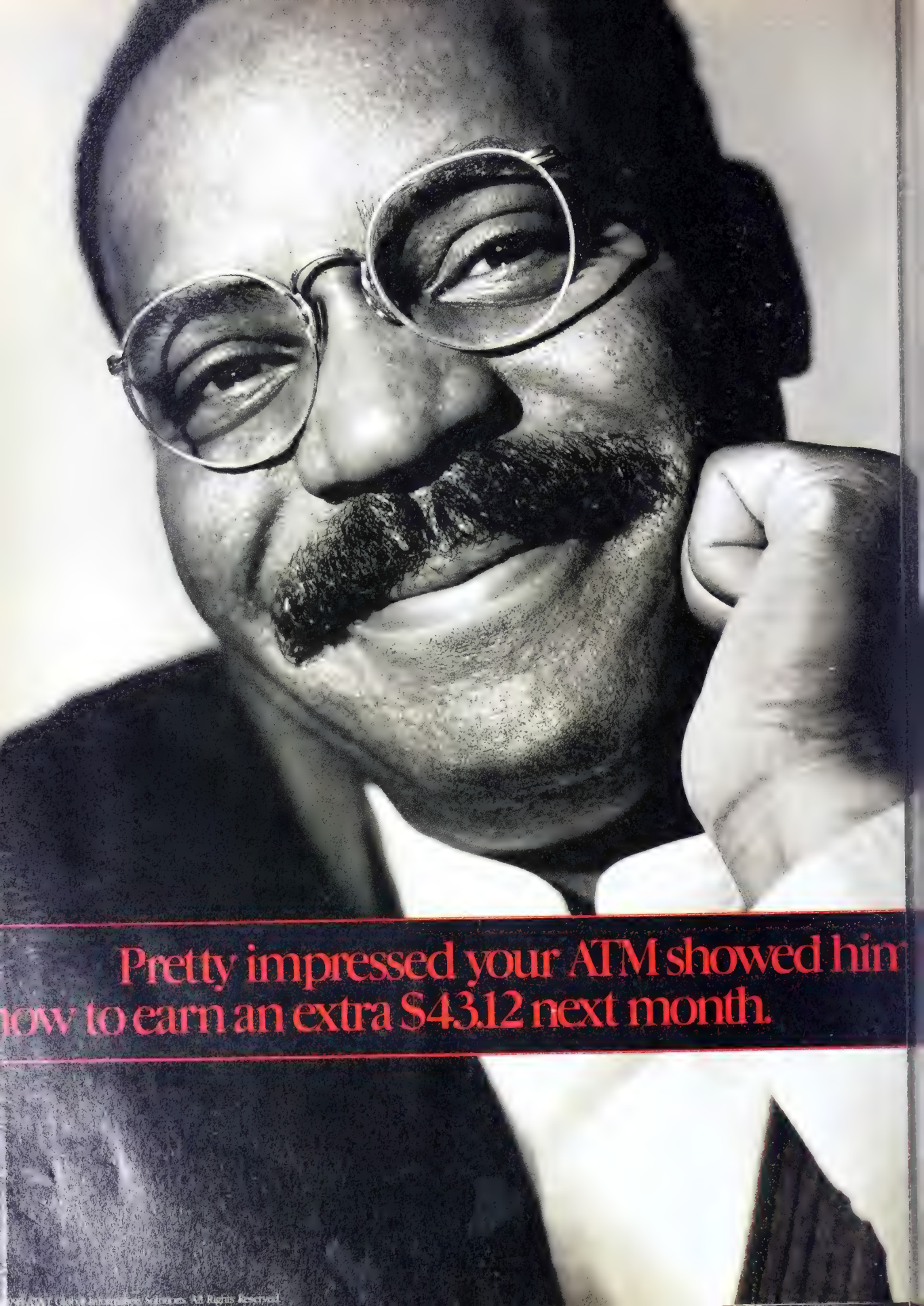
COMMERCE PROMOTES CHINA

▶ While some investors are getting queasy about China, the U. S. Commerce Dept. is more bullish than ever nd is gearing up to push hard for leals for American companies. The war room" at the International Trade Administration (ITA) of Commerce has compiled a list of transportation, energy, power, and telecommunications projects either in progress r on the books in China. Total value: 15 billion. Commerce is also plugging he huge Hong Kong airport project. "There are tremendous opportunities here for everybody," says ITA Under Secretary Jeffrey E. Garten. "This is a full-court press." Garten leaves in early April for a week-long China swing. Commerce Secretary Ronald H. Brown will return with a bevy of CEOs in the summer.

BANKER FALLS ON SWORD

▶ The scandal surrounding a Bank of Japan-led $1.98 billion bailout of two busted credit cooperatives has claimed its first victim: Tetsuya Horie, president of Long-Term Credit Bank of Japan, a leading commercial bank. Horie resigned on Mar. 31 to take responsibility for LTCB's tangled financial ties to Tokyo Kyowa Credit Assn. and Anzen Credit Assn. The two co-ops got in trouble after lending big to political figures.

The bailout has caused an uproar because taxpayers are being asked to rescue politically connected depositors. LTCB, which lent billions to Tokyo Kyowa's real estate affiliate, will likely be forced to fork over most of the $568 million that private banks are chipping into the bailout fund.



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Cover Story

WILL SCHOOLS EVER GET BETTER?

Enrollments are up, money is tight–but there's hope

Americans are fed up with their public schools. Businesses complain that too many job applicants can't read, write, or do simple arithmetic. Parents fear that the schools have become violent cesspools where gangs run amok and that teachers are more concerned with their pensions than their classrooms. Economists fret that a weak school system is hurting the ability of the U. S. to compete in the global economy. And despite modest improvements in test scores, U. S. students still rank far behind most of their international peers in science and math.

And the woes of public schools may be about to get even deeper. Over the rest of the decade, the nation's schools will face a financial crunch that will be far worse than almost anyone had projected. Tight budgets will mean overcrowded classrooms, less individual attention, deferred maintenance, and elimination of such "frills" as music, art, and sports. And schools will have difficulty paying for the computers and other information technology needed to prepare young Americans for the new workplace.

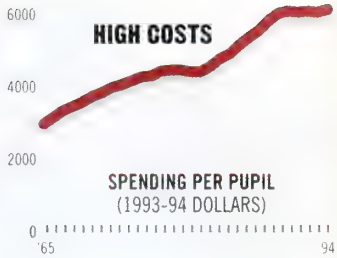
At the root of this school squeeze is an enrollment boom that has caught educators by surprise. Originally, the student population was supposed to rise by some 3 million students in the 1990s (chart). Instead, immigration and higher-than-expected birthrates have fueled a student rush that will add more than 7 million students to the schools by the year 2000, with more to come after that. The school population is rising as fast as it did during the baby-boom years of the 1960s.

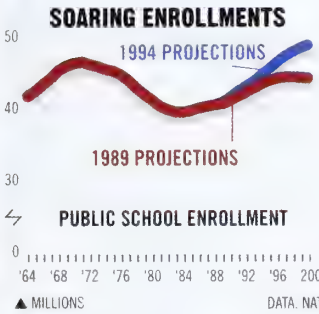
But this is not the 1960s, and overcrowded school systems can't expect big wads of tax dollars to bail them out. There's no help in sight from Congress, where Republicans have already proposed cutting federal spending on education. And times are tight on the state and local level as well: Schools already take more than one-third of state and local spending on goods and services, and taxpayers are increasingly unwilling to pour billions more into a system that is widely perceived as having failed.

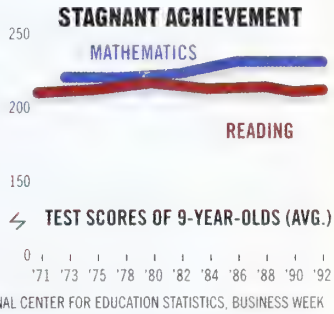
Indeed, the schools are in large part responsible for their own financial problems. Only 52% of every school dollar actually gets into the classroom in a typical large school district, according to Bruce Cooper of Fordham University, working with the accounting firm Coopers & Lybrand (chart, page 67). And the schools have frittered away vast sums without much visible improvement in student performance. Per-pupil expenditures, adjusted for inflation, have risen more than 25% over the past 10 years. "A lot of money being spent in the schools is wasted," says Eric A. Hanushek, an education economist at the University of Rochester. "What we do know is the problem of inefficient use of resources seems to be everywhere."

> Public schools have frittered away vast sums without much visible improvement in student performance

The Sad State of the Public Schools...







DATA: NATIONAL CENTER FOR EDUCATION STATISTICS, BUSINESS WEEK

...And What Can Be Done

Like the private sector, the public schools need to focus on boosting productivity and quality without raising costs. That means:

- Better information about how money is being spent today.
- Shifting more money into the classroom, where learning actually takes place.
- Using physical facilities and teachers more productively.
- Encouraging the creation of charter schools and other alternatives to the current system in order to increase competition.

DATA: BUSINESS WEEK

SYSTEM OVERLOAD
School rolls are growing far faster than expected

If there is a problem with oated and inefficient govern- ent, public education must be a g part of it. The country spends arly $270 billion a year on pub- elementary and secondary ed- ation, making that one of the gest government expenditures (table, page 66). And the 6 llion people working for the public schools account for out 30% of all civilian government employment.

Schools, long used to speaking the language of educa- n—curriculum, test scores, standards—need to start talking out the issues of cost and efficiency. U.S. corporations ve become more productive by getting rid of needless lay- s of management and focusing instead on improving effi- ncy on the factory floor or the back office. In the same way, blic schools have to get more of their funds to the place ere the process of learning actually occurs: the classroom. ne of the key concepts shared between the best schools and best companies is a clear focus on the customer," says therine M. Hudson, chief executive of W. H. Brady Co., a lwaukee manufacturer. "In the schools, that's the student."

Public education can benefit from the hard lessons learned U.S. corporations in recent years. For one, it's now mmed into the bones of every successful corporate man- er that productivity and quality cannot be improved with- accurate information about current operations. But that's lace where the schools fall down badly. The vast majority of school districts cannot answer the obvious question: How much money is actually getting to the classroom? "We keep pumping in more and more money, but we don't know where it goes when it gets into the system," says Cooper. "It's like swinging an ax in the dark."

The second lesson from the private sector is the importance of competition, which pushes schools to innovate and to break down rigid regulations and work rules. That can mean a voucher system, as in Milwaukee, where low-income parents can get money to send their children to private school (page 70). Or it can mean allowing parents, teachers, and organizations such as universities to set up "charter" schools—new public schools, but outside the existing bureaucracy. A new study by economist Caroline M. Hoxby of Harvard University shows that the availability of more school choices can lead to lower spending and higher student achievement. Indeed, competition can accomplish the goal of improving education without the need for top-down standards or rules.

BREAKING POINT. And the schools must learn to make better use of their physical and human resources, just as Corporate America has. Rather than building expensive new schools, overcrowded school districts need to consider alternatives such as shifting to year-round classes or using converted surplus office or retail space. And the almost 3 million teachers in the public school systems can be used more effectively. For example, educational research shows clearly that spending on early education can pay off big—yet high schools still have an average pupil-teacher ratio 19% lower than ele-

SQUEEZE PLAY Makeshift classrooms in Vancouver, Wash.

mentary schools. "We need to think about using those teaching resources differently," says Lawrence O. Picus, an education specialist at the University of Southern California.

Certainly, business as usual is no longer an option. The combination of soaring enrollments and tight finances means that pupil-teacher ratios are on the rise for the first time in the postwar era. And the school squeeze will hit some states harder than others. A new analysis by BUSINESS WEEK shows that the states facing the toughest school squeeze over the rest of the decade are California, New Jersey, and Maryland (chart, page 67). These are states where weak economic growth is combined with fast-growing student populations.

As enrollments rise, schools across the country will come under increasing pressure to curtail spending. Take Prince William County, Va., where hopes for a new source of tax revenue were dashed when Walt Disney Co. abandoned plans to build a historical theme park there. Student enrollments have risen by 12% over the past five years even as the county's economy has slowed, forcing the county to cut its school budget by 6% over the next three years. "We're now at the point where cuts will start to affect our instructional programs," says Robert A. Ferrebee, associate superintendent for management at the county school district. Pupil-teacher ratios have already risen, and some other cuts being contemplated include shortening the high school day, imposing user fees for high school sports, and cutting out elementary music.

"PRETTY GRIM." Some areas have become the victims of their own success. Vancouver, Wash., a largely blue-collar town of some 65,000, has become a mecca for young families, drawn by the plethora of jobs at Hewlett-Packard Co. and other high-tech plants in the area. As a result, the school population had skyrocketed, compelling the town to spend nearly $60 million in 1990 to build three new schools and renovate five old ones. By 1994, the new schools were already overcrowded, and voters approved an additional $135 million in school bonds. But with enrollment expected to rise 30% over the next seven years and the state school-construction fund running dry, that may not be enough. "Even with the financial commitment the community has already made, we can hardly keep up," says Tom Hagley, assistant to Vancouver's superintendent schools. "We're bursting the seams."

And a flood of imm grants is imposing eno mous costs on the scho system in places such Southern California, Ne York City, and South Flo da. For example, school e rollment in Dade Count Fla.—which includes Mi mi and Miami Beach—h gone up by 40% over t past 10 years, far excee ing the growth in popu tion. The reason? The r tirees who once made a big piece of the count population are "re-retirin to locales farther north a being replaced by you families, including many immigrants. As a result, Dad school budget has soared 60% since 1989.

The financial problems for the schools go far beyond the e rollment growth. Many school districts across the count have deferred essential maintenance on their buildings. A cording to a new report from the General Accounting Offi the U. S. would have to spend $112 billion to repair or u grade schools. That's certainly true in Escondido Union Sch District in northern San Diego County, where 30% of the d trict's students are in portable classrooms—relocatable doub wide trailers with leaky roofs and holes in the floors. "I pretty grim here when it rains," says Jane Gawronski, s perintendent of the district. Nevertheless, on Mar. 7, Esc dido voters rejected a $52.5 million bond issue that wo have paid for renovations and new buildings.

In addition, schools face the expensive prospect of movi into the computer age. That includes not simply the comp

How Public Education Costs Stack Up

Spending by all levels of government, fiscal year 9

BILLIONS OF

HEALTH CARE	
EDUCATION	
ELEMENTARY/HIGH SCHOOL	267
POSTSECONDARY	78
SOCIAL SECURITY	
DEFENSE	
CRIMINAL JUSTICE	
HIGHWAYS	

*Estimated

DATA: OMB, COMMERCE DEPARTMENT, BUSINESS WEEK

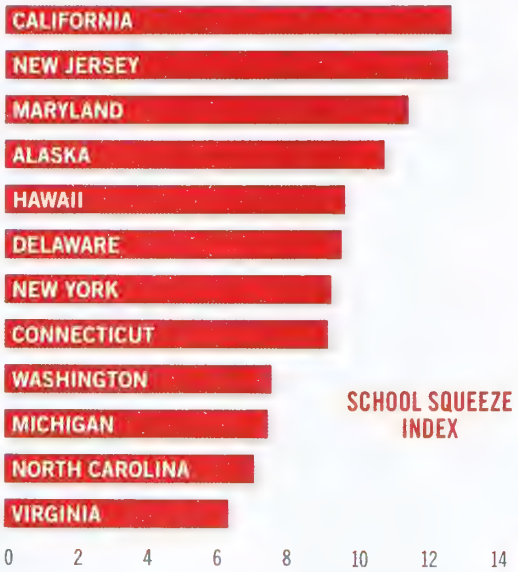
ers—which the schools can often get relatively cheaply—but the wiring and telephone lines required to support them and the space to put them in. And as Corporate America has found, the continuing costs of software and technical support for information technology far exceed the initial investment. "It's tough enough for schools to get the initial money, let alone plan for upgrading," says Darryl Toney, who manages Oracle Systems Corp.'s educational programs.

BLACK HOLES. The school squeeze is forcing districts to make hard choices as to where to spend their money. In recent years, public policy—on both the federal and state level—has emphasized helping disadvantaged students and districts. Out of the $20 billion that the federal government provides for elementary and secondary education, the bulk goes for disadvantaged or handicapped students. And federal law requires schools to provide costly special education to a growing number of students.

Also, prodded by the courts, New Jersey, Texas, Michigan, Missouri, and others have passed reforms in school financing to bring up spending in the poorest school districts, sometimes at the expense of more well-to-do areas. For example, Michigan recently shifted from relying on local property taxes to finance schools—which favors the high-income districts—to using a statewide sales tax. The state also capped spending growth in the richer districts to give their poorer cousins a chance to catch up. Birmingham School District, one of the state's wealthiest districts, will only be able to boost per-pupil spending by 1.6% this year, while Shelby Public Schools in low-income Oceana County will be able to raise spending by 6%.

Where the School Squeeze Will Hurt the Most

The School Squeeze Index measures the projected gap between the growth in school spending and the growth in real personal income, 1994-2000*



*Assuming a 2% annual increase in real spending per pupil

DATA: NATIONAL CENTER FOR EDUCATION STATISTICS, DRI/McGRAW-HILL, BUSINESS WEEK

Still, while more equitable financing may be a good start, it's definitely not enough. Over the past 20 years, a virtual army of academic researchers has examined the question of whether spending more money raises student performance. The result? At best, simply throwing money at the schools has a marginal impact. The money has to be spent well for it to matter.

Indeed, many voters believe that their school dollars are going into a black hole. "Virtually all school districts lack credibility inside and outside the district," says Sheree Speakman, partner at Coopers & Lybrand.

So with money tight, the first priority is to get control of spending. As a result, more and more school districts are moving to "site-based reporting," which was first developed by Cooper of Fordham University and is now being nationally distributed by Coopers & Lybrand and the U. S. Chamber of Commerce. This accounting system shows where the money is going: instruction vs. support services, or central administration vs. individual schools (chart).

Site-based reporting has been applied to more than 50 school districts nationwide, including New York City, where it showed that out of total spending of almost $8,000 per pupil per year, only $44 was budgeted for classroom materials. And the new system gives school districts benchmarks for seeing where their expenditures are excessive or falling short.

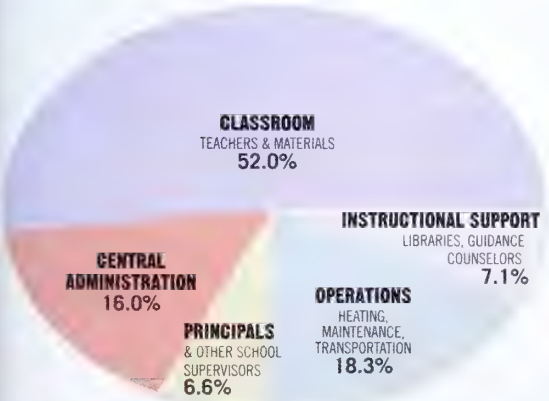
For example, when the Nashville public schools crunched the numbers, they discovered—much to their surprise—that they were spending 24% of their budget on operations such as maintenance, compared with 18% for a typical large school district (chart). The result? A program to bring down operating costs. Now the district is using site-based reporting to help set spending policy. "We have a goal of increasing yearly the percentage of our operational budget that goes into direct instructional spending," says Edward Taylor, assistant superintendent for the Metro Nashville Public Schools.

FEW REWARDS. The new system also shows what parents have always suspected: Even within the same district, some schools do a much better job than others in using money wisely. One school may get 30% to the classroom, while just six blocks away, another school gets 80% to the classroom. With this information, "you can target the children who aren't getting the education," says Cooper. "You can do that kind of precision bombing because you know where the money is."

And the frontline production workers—the teachers—may also benefit, if the improved information is used to increase the amount spent in the classroom. That's why teacher unions are cautiously supportive of the new system. "This will get us a long way toward understanding how to be more efficient," says Jewell Gould, director of research for the American Federation of Teachers.

Certainly, current funding can be used more efficiently. For example, school districts often put up expensive new buildings when existing space could be used better. About

Where The Education Dollar Is Going



DATA: BRUCE COOPER, FORDHAM UNIVERSITY; COOPERS & LYBRAND

1,200 schools nationwide—mainly in California—now run year-round, increasing student capacity by 30% to 50%. And in Minnesota, some new charter schools are saving money by sharing facilities with the local housing authority or recreation center and by reusing existing retail space.

And teaching resources can also be directed more effectively. It's well-known, for example, that the early years of schooling are critical: A student who slips behind when reading is being taught has little chance to catch up. However, most school districts direct far more resources to high schools, with their athletic programs and specialized courses. That's why Missouri structured its aid program so that districts have a financial incentive to reduce class size in the lower grades.

And within schools, new programs are showing how to reallocate existing money to better uses. For example, Success for All, a program developed by Robert Slavin of Johns Hopkins University, uses intensive tutoring to keep students from falling behind in the early grades. Now being used in about 200 schools in 20 states, it costs about $1,500 per student—but Slavin points out that poor districts, which need the program the most, can cover most of those costs by using funds that schools already get from the federal government for disadvantaged kids.

But even when such programs work, they are hard to sustain, because they typically demand increased effort from teachers and principals and more parental involvement. Moreover, schools have few incentives, financial or otherwise, for better performance. "People who do a good job get no rewards, compared to people who do a mediocre or poor job," says Hanushek.

BUREAUCRACY BLASTERS. One possibility is to create alternatives to the current public schools and let competition create pressure for both educational and financial reform. At one extreme are vouchers allowing students to attend the private or public school of their choice. The only voucher system now in use is in Milwaukee. But five other states are currently considering similar programs, focused mainly on low-income families. "When targeted at low-income families, folks who had been wary—minorities and Democrats—have been coming out of the woodwork," according to Jeanne Allen, president of the Washington-based Center for Education Reform, a pro-voucher group.

Such proposals to use vouchers often stir up enormous political opposition, as does privatization—allowing private profit-making companies to run public schools. The fear is that private schools would skim the best students off, leaving the public schools with the dregs.

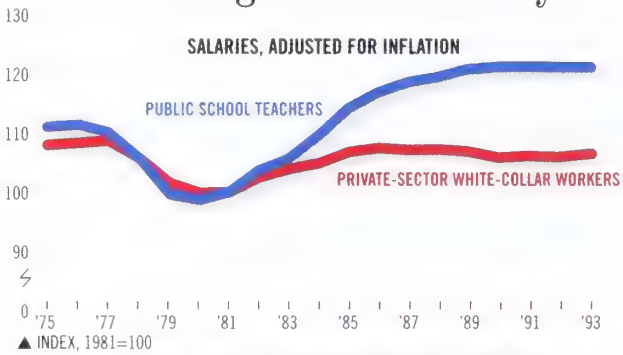
Instead, an increasing number of states—including Minnesota, Michigan, and Massachusetts—are encouraging a more limited form of competition by allowing parents, teachers, and other groups to set up "charter" schools. A charter school is a public school, in the sense that it has to meet certain standards and not discriminate in admissions. At the same time, it's independent of the traditional school system.

Charter schools typically receive funding from the state for each pupil. But because they must attract students who are not obligated to attend, they have an incentive to spend the money in ways that will actually improve education. And charter schools also benefit by running leaner. "We can get by" on less money, says Nancy Miller, a teacher at the Minnesota Country School, a charter school in its first year in LeSeuer, Minn., "because we don't build up all the bureaucracy traditional public schools do." With no administrators, Minnesota Country School can afford to spend more on new technology.

"INCENTIVES." And charter schools can also serve as a catalyst, pushing the existing public schools to offer new programs and improve existing ones. That's what happened in Boston last year, with the passage of a state law allowing charter schools. Faced with the unsettling prospect of competition, the Boston teacher's union agreed to the creation of new "pilot" schools, free of union and school board rules. "Charter schools provide new incentives for school districts to become more responsive and entrepreneurial," says Joseph Nathan, director of the Center for School Change at the University of Minnesota.

Competitive pressure may also lead to increased teacher productivity, which is critical in light of the rise in teacher salaries (chart). That's what's happening in Wilkensburg, Pa., a suburb of Pittsburgh, where Alternative Public Schools, a private corporation, has offered to run an elementary school at the same per-pupil cost but for longer hours and more days per year. The counterproposal from the local teacher's union: They would work 10 additional days a year without any increase in pay.

The Surge in Teacher Pay



DATA NATIONAL CENTER FOR EDUCATION STATISTICS, BUREAU OF LABOR STATISTICS

In some cases, entire school districts are remaking themselves. Take Calvert County Public Schools in Maryland, where enrollment is skyrocketing at a time when state funding is tight. The traditional school model won't work, according to William Moloney, superintendent of the district. Instead, the district plans to restructure its elementary schools: Teachers will stay with the same kids two years, and schools will strive for a climate for work, discipline, and values. "Those things don't cost a lot, but they're tremendously important," says Moloney. "These changes will bring us more education for less money."

> An increasing number of states are allowing parents, teachers, and others to set up "charter" schools that compete with traditional schools

The U. S. needs to encourage these sorts of initiatives. Is there a risk that some of these new programs will go astray? Sure. But just as beleaguered American companies were able to increase the quality and lower the cost of what they made, so, too, can the public schools learn how to provide a better education for America's children.

By Michael J. Mandel in New York, with Richard A. Melcher in Milwaukee, Dori Jones Yang in Seattle, Mary McNamee in Washington, and bureau reports

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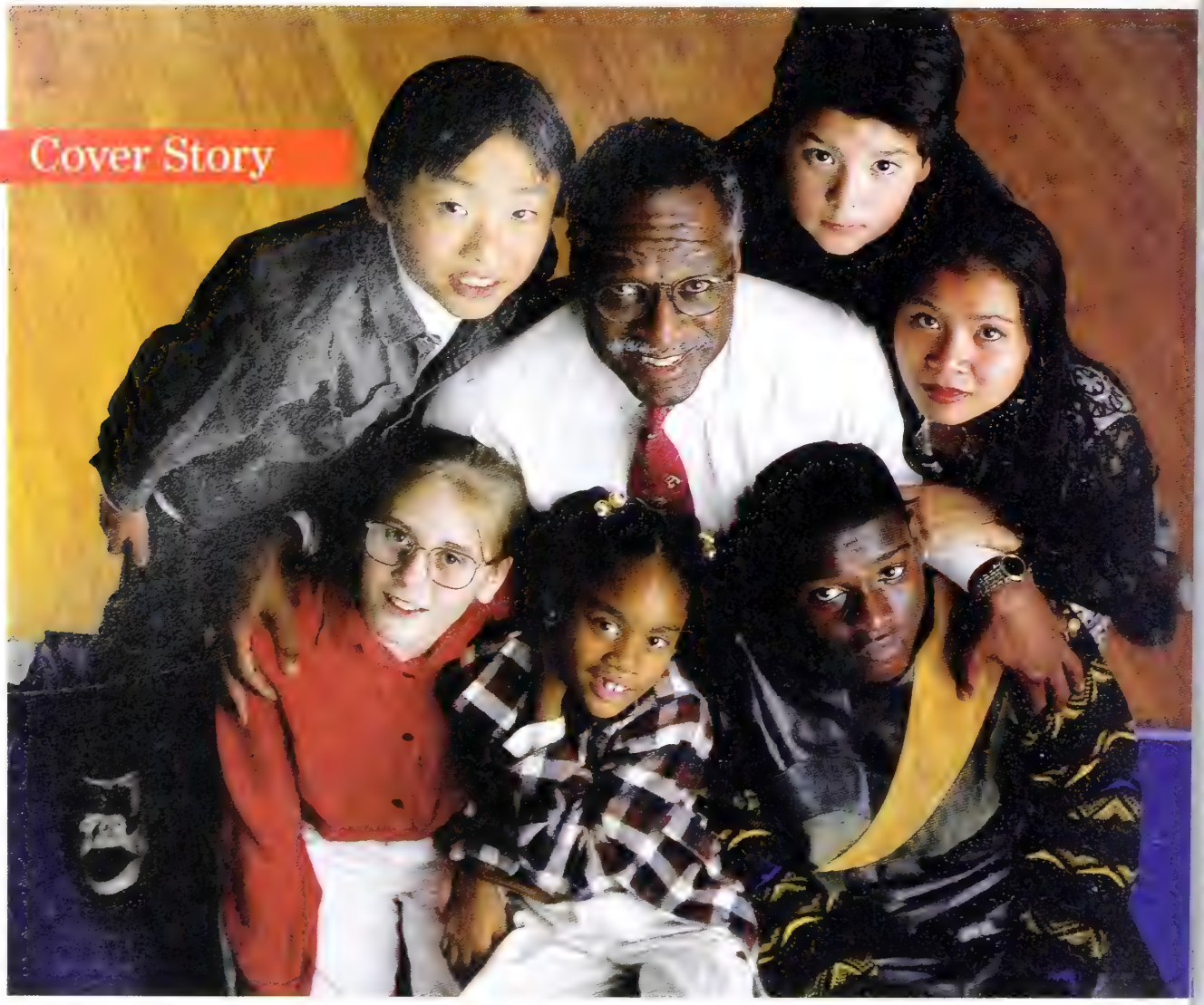


RISK-TAKER Superintendent Fuller with Milwaukee kids

MILWAUKEE'S LESSON PLAN

It's aggressively reinventing its schools

Nearing the end of a typical 12-hour day, Howard Fuller slumps wearily in his office chair. But as he begins to talk, he sits taller, and his eyes shine. Two decades ago, he was organizing poor workers in the South. Today, Fuller is still crusading—as superintendent of Milwaukee's public schools. On this recent day, he has met with the district's 157 principals, lunched with executives to discuss funding, and ended the afternoon in a heated exchange with parents and teachers of a community school. "As I got older," says Fuller, 54, "I realized I couldn't change the world, so I decided to work on the lives of children. The struggle is to make sure all kids get the best education possible."

Once an outsider, Fuller now sits at the epicenter of a blaze of reforms sweeping Milwaukee's classrooms. The nation's 15th-largest urban district is among the most aggressive systems overhauling American urban education. From Milwaukee's south side, with its ethnic stew of Hispanics and Eastern Europeans, to the predominantly black north sid Fuller is helping principals and teachers break free of suff cating rules imposed by state and city bureaucrats. Togeth they're wresting back control over school spending.

The city's educators and business leaders, meantime, ha gone the furthest in the country in tying classroom learning the labor market. In three years, the world of work will be key piece of the curriculum from kindergarten to 12th grad Blue chips such as A. O. Smith Corp. and Allen-Bradley C help train teachers in total quality concepts. Grades and te scores are inching up—all this in tightfisted times. "Milwauk is a model for involving the private sector and other communi groups," says Michael Casserly, executive director of the Cou cil of the Great City Schools, a network of big-city schools. "I one of the most risk-taking districts in the country."

Indeed, while politicians and pundits make much of vouc ers, Milwaukee is the only place in the country that actua has such a program. The experiment, which uses public fun for private school, is limited, open to only a fraction of M waukee's students. But just the same, it forces some pub

schools to compete for students and resources. Diverting money away from beleaguered public schools is plenty controversial, but Governor Tommy G. Thompson, a leading Republican reformer, wants to spread vouchers throughout the state—even to religious schools. "We need to expand the definition of public school," says Thompson. "They should serve the public, not necessarily be run by the government."

Milwaukee's innovations shed light on the way forward for U.S. schools as they face shrinking resources and growing enrollments. After two decades of failed reforms, educators have earned at least two lessons: One is that money alone, while important, doesn't help children learn and succeed. The other is that central administrations must loosen their grip so reform can bubble up from the classrooms and communities. Like Corporate America, schools will have to decentralize, learn to compete, and be held accountable. "We have a bureaucratic structure that functioned in an old Industrial Age," says Fuller. "Industry has thrown it away, but we still have it."

ENTERPRISE ZONE Kids' business displays at a school trade fair

EARNINGS GAP. The stakes for Milwaukee, as for the nation, are enormous. A city of 630,000 on Lake Michigan, Milwaukee is a place where solid-paying manual jobs in breweries and machine shops have given way to a more diverse workforce. While the city boasts sophisticated manufacturing and prosperous financial services, these high-skilled, high-paid jobs are beyond the reach of a growing segment of the population. On any given day, more than one in five high school students fail to show up for class, and companies find that more and more graduates can't handle basic math and writing, let alone computers. "That kind of performance is unacceptable," says Robert J. Toole, chairman of auto-parts maker A.O. Smith.

A Snapshot of Milwaukee's Schools

The nation's 15th-largest urban school system at a glance

- 103,000 Kids
- 157 Schools
- 59% Black
- 24% White
- 11% Hispanic
- 65% of kids from poverty-level families

DATA: U.S. CENSUS BUREAU, METROPOLITAN MILWAUKEE ASSOCIATION OF COMMERCE, MILWAUKEE PUBLIC SCHOOLS; COUNCIL OF THE GREAT CITY SCHOOLS, EDUCATION DEPT

How Milwaukee Stacks Up

	MILWAUKEE	NATIONAL
COMPOSITE ACHIEVEMENT SCORE	18.9	20.8
COLLEGE-BOUND HIGH SCHOOL GRADUATES	60%	30%
PER CAPITA SPENDING	$7,031	$6,100

Milwaukee's economic divide is much like that of other cities, only a bit worse. It tends to draw more students from poor families: 73% of its kids receive free or subsidized lunches, compared with 58% for all cities. Milwaukee schools receive $7,031 in public funds per child, more than the national average of $6,100. But that number reflects its dependence on federal and state funding. Now, proposed cuts in federal spending, which contributes 10% of Milwaukee's $769 million school budget, are endangering school lunches and drug-abuse education. Meanwhile, enrollment, totaling 103,000, has been growing steadily for five years, adding about 1,000 kids a year.

At the same time, Wisconsin, like lots of other states, is shifting more of the burden of school financing from local property taxes to state general revenues. That will leave the state picking up an extra $1.2 billion for schools next year, or two-thirds of the total, up from 51%. If the state's strong economy turns down, "it will be a major fiscal challenge to meet our school-funding obligations with all of the other priorities in state government," worries Mark D. Bugher, Wisconsin's secretary of revenue.

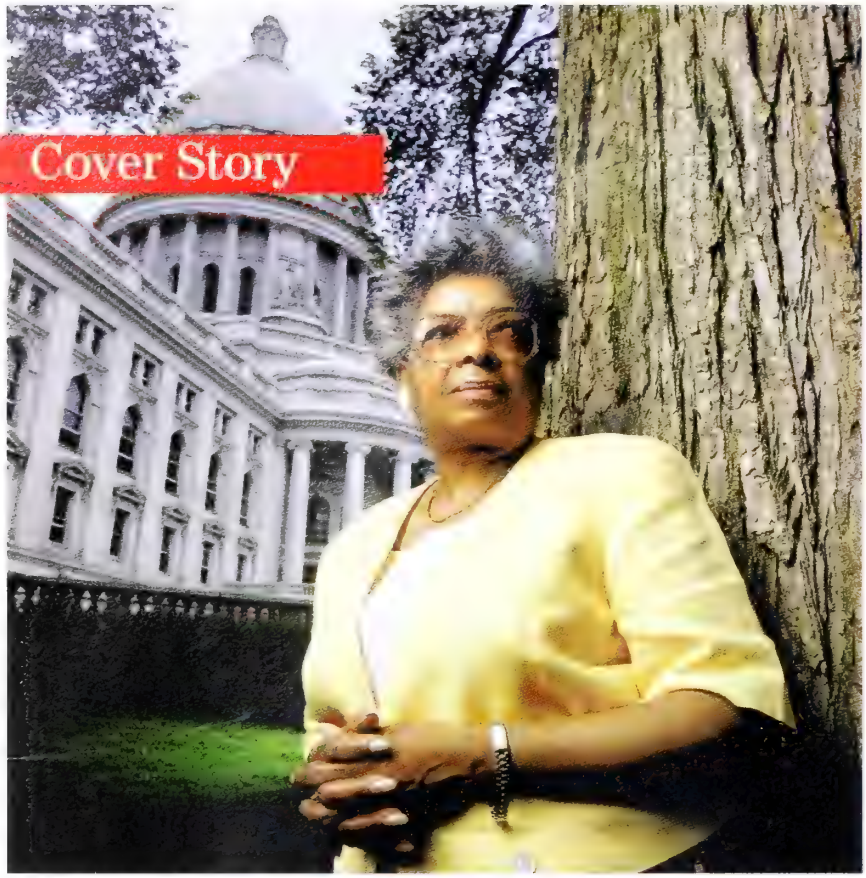
The city's history of segregation also has taken a toll on the schools. Two out of three students are bused to school, the result of a 1976 court order. But race relations remain volatile. And some schools must cope with gangs, neo-Nazis, and warring Serbian and Croatian students. Busing's other legacy: It has destroyed neighborhood schools and left thousands of parents far from their children's classrooms.

Still, many in Milwaukee are cautiously optimistic. For that, they credit Fuller, who was appointed in 1991. Fuller spent much of the '60s and early '70s using a Swahili name—Owusu Sadauki—while he organized hospital workers in North Carolina. After coming home to Milwaukee in the 1980s, he held several state jobs. While a college administrator, he agitated for a separate black school system that would shift power to parents and upgrade black education.

The choice of Fuller as superintendent turned out to be a canny one. A product of Milwaukee's public schools and its tough housing projects, he was also an outsider with no teaching experience. While the teachers union and its supporters on the school board are often at odds with Fuller, most Milwaukeeans are cheering him on. "He has given most of the teachers, principals, and companies some hope that there's something salvageable," says Ted A. Hutton, of electronics maker Allen-Bradley.

From the start, Fuller began mapping a vision of Milwaukee's schools as semi-autonomous units that would compete for kids and buy and sell services from a streamlined administration. Fuller has been giving principals some say over picking teachers. He's also letting schools control more of their funds. Before, the central administration had power over a school's entire budget. Now, it controls roughly 80%, and Fuller wants to go further. "You have to break up the monopoly," he says. "All of the adults have been organized to protect their interests. You run into union contracts, board mandates, state mandates, and the tremendous intangible—the way it's always been done."

Fuller also has moved quickly to toughen up the curriculum



EYE OF THE STORM

Legislator Williams helped make vouchers a reality

and to hold teachers and principals accountable. He laid down 20 achievement goals that range from 90% high school attendance to above-average reading scores for 85% of third graders. Last fall, he started ranking each school in an annual district "report card." For those schools that repeatedly come up short, Fuller and the school board are threatening to close them down. The pace is slow, but some progress is being made. Fifth graders are beating their targets in writing, and third graders in reading. High schoolers' grade-point averages inched up from a miserable D+ in 1991 to C- in 1994, while dropout rates for entering seniors fell from 17.4% in 1993 to 15.4% in 1994.

Fuller gives his principals unprecedented freedom to experiment. And Alexander Hamilton High School principal Clark Lovell is taking full advantage. Part disciplinarian, part innovator, Lovell labors to hold together the raucous mix of ethnic groups in his 1,900-student school on Milwaukee's southwest side. He sets high standards and is unrelenting. "I consider this school to be different," Lovell asserts. "I expect my kids to be above average."

Lovell is pioneering what's now known as the school-to-work concept: linking learning to the work world. Lovell and his teachers are rearranging the curriculum to eliminate rigid barriers between such subjects as math and history, and they're encouraging students to work in teams. He also is creating a series of specialties—business and finance, arts and sciences—and is soliciting support from local institutions.

As part of Milwaukee's school-to-work project, Firstar Bank Milwaukee helped design the curriculum for the four-year business and finance cluster, and its manager will teach some classes. For students wh complete the coursework, Firstar will gua antee employment; for those who go on college, it will provide summer jobs. This what President Bill Clinton had in min when he helped push school-to-work legi lation last year. Out of the $100 million seed money for such programs, Milwauke has received $2.9 million.

TVs AND SAVINGS BONDS. Conceding th the sheer beauty of learning, even in th new environment, may not be enough lure all students, Lovell is dangling oth enticements. To get kids to show up a then do well, he's handing out prizes, fro color TVs to savings bonds, to top pe formers. About 400 kids are recognize every term, and $5,000 in gift certificat and bonds—donated by local merchants is handed out annually.

Lovell thinks the prizes are a key reas that grade-point averages have risen fro C- to C+ in the past 18 months and th 60% fewer students were counted as tar Parents like the prizes, too. In a rece survey, they rated the three-year-old pr gram as one of the features they lik most about Hamilton, even though some parents and studen deride the program as bribery.

Across town, at Silver Spring Elementary School, the i centives are more sophisticated. There, each class has set a "company"—among them, Candyland USA and Paper, Pen & Gift Co. Students are learning how to interview for exe utive positions and how to buy and sell. In January, fif graders opened the First Student Run Bank, taking in $1,0 in deposits from fellow students. The school's business patr Associated Bank Milwaukee (a grown-up bank), provides savings account to each student who deposits $10. "We tea

Milwaukee's Report Card

Schools superintendent Howard Fuller has laid down tough, new goals for the public schools. Here's how they're doing:

GOAL/GRADE	ACTION PLAN	STATUS
RAISE ACADEMIC STANDARDS C+	More rigorous requirements and testing. New emphasis on writing	High school grade average still C-, but dropout rate is falling
STREAMLINE BUREAUCRACY B-	Consolidate 20 departments into 6. Give principals more control over funds and staff	Schools don't have tota control over curriculum or hiring teachers
FOSTER INNOVATION B+	Reduce bureaucratic control, freeing principals and teachers to experiment	More communities running own schools. Vouchers in limited use
INVOLVE BUSINESS A	Bring local companies in as partner in overhaul. Tap expertise of executives	Dozens of companies offering counseling, money, and jobs

DATA: BUSINESS WEEK

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the kids how to put money in the bank and how to save," says Merinda Carter, the 10-year-old elected president by her peers and who runs the bank out of a storage closet. "We're learning about what we have to do later in life."

Cover Story

America's road to school reform is littered with ideas killed off by bureaucrats and union leaders. That's why so many reform efforts focus on setting up schools outside the system. The charter concept, which allows communities to form schools from scratch, is catching on: Authorized in 11 states, charter schools usually operate independently of school boards and free of union contracts. Wisconsin has a more limited charter law: A testament to the clout of the teachers union, the law forbids abrogation of contracts and authorizes only 10 new schools statewide. Governor Thompson, spurred on by Fuller, is pushing legislation that would lift such restrictions.

In the meantime, Milwaukee has created its own charterlike school, Hi-Mount Community School. It sprang to life last year in a hulking red-brick building on the west side. Hi-Mount is run by a 20-member community board comprising parents, businesspeople, and union leaders, which has broad powers to hire and fire the principal and teachers—although the school board retains some jurisdiction. And the community board controls nearly two-thirds of Hi-Mount's budget.

UNION LEADER
Carmen says teachers aren't the enemy

Winning over the teachers was key. Previous attempts to bring together teachers and administrators had fallen apart over turf battles. This time, Fuller and Mary Bills, the school board president, encouraged Hi-Mount principal Spencer Korte and a group of teachers to give the union a big role on the board. The planners also sold their idea to rank-and-file teachers at Hi-Mount. The sales pitch emphasized that the union contract would still hold but that teachers would gain a say in the budget process and in the design of a new curriculum. Once teachers bought the idea, the union offered up its own compromise, freeing the board to determine staffing and to alter class schedules. "Those are revolutionary concepts for a teachers' union," says Sam Carmen, executive director of the Milwaukee Teachers Education Assn.

Carmen points to Hi-Mount as proof that the teachers union isn't the enemy. The union says it is now talking wit 20 schools seeking various contract waivers, à la Hi-Mour But in Milwaukee and elsewhere, the union draws the line a privatization and vouchers. "These cut at the heart of th union," Carmen says.

There's little evidence so far that Milwaukee's experiment in vouchers is a miracle cure–nor is there evidence that it's poison for the public-school system

In 1991, an unusual collection of supporters—Republica and Democrat, rich and poor—pushed through a state vouc er law. It allows up to 1.5% of Milwaukee's student populatio about 1,500 kids, to apply for places at 12 priva schools. For each student taken in, 830 this scho year, the state pays $3,209 a year. The rest paid by parents or through fund-raising.

TWISTS AND TURNS. Few people are dispassiona about vouchers. Annette "Polly" Williams, a D mocratic state legislator who helped push th voucher law, insists that the public system nearly hopeless. "I will not waste my time tryi to change the system," she says. "This is about saving children." Opponents are equal emphatic. Insists school board President Bil Vouchers are a "smokescreen for reduced fundi of public education."

But while the adults debate, Milwaukee's e periment provides little evidence so far that ch dren gain or lose simply by changing to priva school. John Witte, a University of Wisconsi Madison professor who has studied the vouch program since it started, found that in academ achievement, measured since 1990, the childr who went to private schools performed no bett than those in public schools—although paren satisfaction is much higher.

Several factors may be responsible for th Witte points out that it is wrong to assume th private schools will always turn out better st dents. He also notes that many "voucher kid came from far poorer families than the avera in public school, and that many of them h been underperformers. Witte's final word vouchers: "There's no miracle here, but ther no devastation of public education, either."

Milwaukee's experience shows the twists a turns a genuine effort at reform can take. When all the pla ers—parents, teachers, principals, business leaders—co together, things can happen. Along with many others, Ful is working hard to keep Milwaukee's fragile coalition inta He knows it can break apart, perhaps in a power strug with the teachers union if he pushes too hard. But the forms he has helped unleash will outlive his tenure. There v always be principals such as Rose Guajardo, who has turn Kagel Elementary School, in one of Milwaukee's most i poverished, gang-ridden neighborhoods, into one of the b performers in Wisconsin. "This is not a job," she says, "it' mission." For teachers, parents, and principals across t country, turning around America's schools is nothing less

By Richard A. Melcher in Milwauk
with Michele Galen in New Y

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AN EMBARRASSMENT OF GLITCHES GALVANIZES CHRYSLER

With its vaunted turnaround threatened, No. 3 gets serious about quality

Last year, Rick Koch, a 31-year-old computer salesman from Jacksonville, Fla., bought a new, $13,000 Dodge Neon that quickly developed glitches. The driver's door latch sometimes refused to release, the plastic liners inside both front fenders rattled, and sealant oozed from around the rear window. By November, Koch posted an electronic memo on Prodigy, detailing his car woes for the online service's 1.2 million subscribers. "I'd never buy another," he wrote in disgust.

Unfortunately for Chrysler Corp., Koch isn't the only one taking aim at its quality problems. In its annual survey of auto quality released last June, J. D. Power & Associates Inc. ranked Chrysler cars consistently below industry averages: Of 31 brands surveyed, Chrysler finished in the bottom third. *Consumer Reports* also raked Chrysler over the quality coals. In its January and April issues, the magazine warned readers to be wary of such models as the Dodge Intrepid, the Jeep Grand Cherokee, and the Dodge Ram pickup, which all had above-average chances of landing in the repair shop. And in March, mounting bad publicity surrounding a National Highway Traffic Safety Administration probe forced the No. 3 carmaker to agree to replace the liftgate latches on all 4.5 million of its minivans on the road.

There are signs, however, that Chrysler may finally be moving to improve its laggard quality. Shaken by the J. D. Power results, Chairman Robert J. Eaton has committed several hundred million dollars to fixing nagging problems on existing models. And even before industry sales slowed in January, he drastically cut overtime. Although dealers were screaming for more hot models like the Jeep Grand Cherokee, he pruned production to reduce the likelihood of mistakes by harried workers.

Most important, Chrysler has begun engineering its latest models—particularly the redesigned minivans just arriving in showrooms—with far more attention to avoiding defects. Until last year, "we simply were not putting the effort into these things that we told ourselves we were," concedes Eaton. But with internal quality audits improving, Eaton says the next Power survey, due May 24, will show "we're the most improved company out there," he says.

Chrysler desperately needs just such an independent stamp of approval. The company has promised top-notch quality before, only to fall short. And Eaton made quality a priority when he arrived three years ago. Chrysler's problems are partly a legacy of its two brushes

Quality Conundrum *Consumer Reports* predicts poor reliability for Chrysler's new models, but gives them high overall ratings based on their comfort, convenience, and performance

MODEL	RELIABILITY RATING	OVERALL RATING
CHRYSLER CIRRUS	NA	Very good
DODGE INTREPID	Worse than average	Very good/excellent
CHRYSLER LHS/NEW YORKER	Worse than average	Excellent
DODGE CARAVAN	Average	Excellent
DODGE GRAND CARAVAN	Worse than average	Very good
JEEP GRAND CHEROKEE	Much worse than average	Very good

DATA: CONSUMER REPORTS

with bankruptcy, when the auto maker acked funds for design and testing. For ll its recent hot launches, the quality woes are imperiling Chrysler's vaunted urnaround. The company risks scaring ff the savvy, well-to-do consumers it s wooing with flashy new cars such as he Cirrus sedan. "Poor quality can kill success] in a minute," warns Furman Selz Inc. analyst Maryann Keller.

LOW BLOWS. First priority has gone to ixing the problems cropping up in existng models. For example, poor engineerng has meant that Chrysler's assemly workers typically have to bend and ammer the doors to get proper fit on he Dodge Intrepid and its other LH nodel family sedans—a practice rare at op Japanese rivals. Such crude fixes nvariably leave some doors with anoying air or water leaks. So Chrysler ngineers are reconfiguring the doors. y summer, one consultant estimates hrysler will have spent $25 million to 50 million on new machine tools to tamp out doors with greater precision.

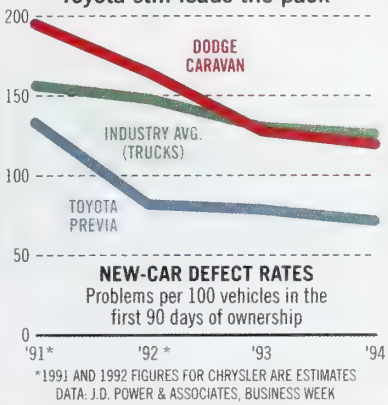
Nowhere has the attention to detail een as great as with Chrysler's minians. They account for nearly a quarter f profits and face intense competition om Ford Motor Co.'s Windstar, so hrysler is going all-out to eliminate litches. Owners griped that the powerindow switches were awkward to each, for example, while their knees ten bumped the power door lock buton. So in mid-1994—although a full odel redesign was just a year away—hrysler spent $300,000 to move the indow switches and fashion a guard ound the lock toggle. By sweating ich details, quality has steadily improved on such models as the Dodge Caravan, which was No. 2 in Powers' minivan survey last year, behind Toyota Motor Corp.'s Previa (chart).

Eaton's claim that quality has improved is backed by an unlikely source: General Motors Corp. While *Consumer Reports*' assessment was based on early 1994 data, Chrysler fared better in a GM study of models on sale at yearend. The internal survey ranked the Town & Country minivan just below the Previa. More surprisingly, the Intrepid and similar LH midsize sedans placed right behind the Honda Accord, Toyota Camry, and Buick Century and ahead of the Mazda 626, one of *Consumer Reports*' recommended models.

Rather than belatedly fixing snafus on models already on the road, however, Chrysler needs to avoid them in the first place. To do so, engineers working on the minivan overhaul are revamping the planning process and conducting some of the most extensive testing ever performed at Chrysler. To chase down squeaks and rattles, Chrysler hired a Toronto testing company to shake prototypes in a huge hydraulic device. The shakers simulated 100,000 miles of driving at temperatures ranging from 120F to minus 20F. Then, the team probed inside components such as seats with a tiny video camera and microphone to record squeaks in action.

CHASING THE QUALITY LEADER

Chrysler's defects are down, but Toyota still leads the pack



NEW-CAR DEFECT RATES
Problems per 100 vehicles in the first 90 days of ownership

*1991 AND 1992 FIGURES FOR CHRYSLER ARE ESTIMATES
DATA: J.D. POWER & ASSOCIATES, BUSINESS WEEK

Less overtime, it is hoped, means fewer mistakes on the line

By the time it was done, the team had redesigned parts to quiet a chorus of 29 buzzes, squeaks, and rattles. And to make sure no new ones crop up in production, Chrysler has installed hydraulic shakers in its two plants to test vans coming off the line—something no other carmaker does. Already, that's found one last squeak in the minivan's hood that engineers are rushing to fix.

Of course, Chrysler has always tested new vehicles before production. But its financial problems meant that it often lacked sophisticated equipment to spot hidden problems. Until recently, for example, Chrysler engineers could bench-test engines at temperatures down to only 30F. As a result, some four-cylinder Neon engines have been plagued by head gaskets that leak oil when the engine metal expands and contracts in colder climes. To avoid that, the minivan designers hired a testing firm to run engines at temperatures ranging from 290F to minus 30F. The result: The new minivan's four cylinder engine came out with a stronger head gasket with silicone grommets to seal in the oil.

All the testing in the world won't ensure quality if suppliers deliver defective parts. Like Chrysler, top Japanese rivals depend on outsiders for roughly 70% of their cars' content—but they do a much better job of managing suppliers. In the past, Chrysler's product engineers simply tested prototype parts to be sure they fit or functioned correctly. But in last fall's launch of the Cirrus sedan, engineers found some suppliers couldn't produce flawless parts when their assembly lines were running full tilt. So minivan engineers participated in test-runs at full-line speed at about 80% of their 350 first-tier suppliers. When defects cropped up, Chrysler sent in engineering SWAT teams to help fix them. That's almost as thorough as Honda Motor Co., which performs such preproduction tests at all of its suppliers. "They have driven home the quality theme," says Charles E. Wolfbauer, president of Lamb Technicon, a suburban Detroit toolmaker.

SHARED WISDOM. The real test of resolve will come as Chrysler transfers the lessons learned from redesigning minivans to such models as the LH family sedans, where quality is much worse. To ensure that all adopt better practices, Eaton and his top managers are trying to force greater cooperation among the independent platform teams that design products. "They're reining them in big-time," says James Harbour, a Detroit-based manufacturing consultant. Now, for example, each model team devises its own process for welding hundreds of body panels. But Chrysler recently began studying which models are welded at the lowest cost and with fewest defects—and over time, Eaton says, all will adopt the best methods.

Of course, Chrysler has declared victory on the quality front before, only to disappoint. And real change will take several years, since many design and manufacturing improvements can only be introduced as new models are launched. But observers agree that Chrysler has a new-found urgency about quality. "Chrysler is turning the corner," says analyst Keller. "There is recognition in the company that they screwed up." While no one expects Chrysler to zoom past leaders such as Toyota, for now it is improving more quickly than the industry average. If Chrysler can keep it up, that may finally silence critics like Rick Koch and *Consumer Reports*.

By David Woodruff in Detroit

STRATEGIES

JUST IMAGINE IF TIMES WERE GOOD

GE's profits from jet engines are soaring in a slow market

The aviation industry is still a long way from pulling out of its descent—but you wouldn't know it from looking at General Electric Co.'s jet engine business. Profits are growing at a pace reminiscent of the Reagan-era military buildup of the 1980s. Analyst Jennifer Pokrzywinski of Morgan Stanley estimates that the group's 1995 profits could climb 14%, to $1.1 billion, even though revenues may remain unchanged at $5.7 billion. That would push profit margins close to 19% (chart).

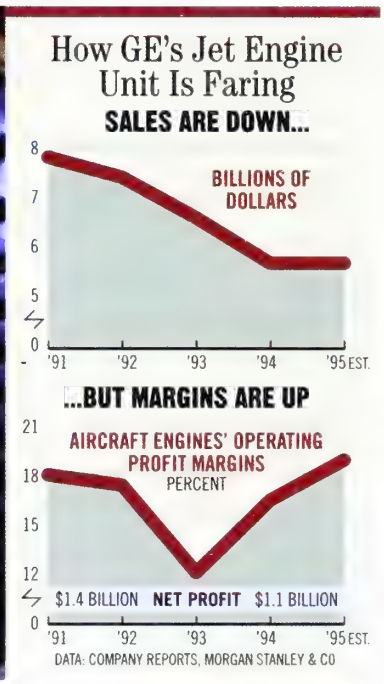
Just how GE Aircraft Engine Group, based in Evendale, Ohio, achieved those numbers, however, is more than an object lesson in reengineering an enterprise to fit a radically smaller market. It's yet another demonstration of how GE CEO John F. Welch Jr.'s relentless focus on the bottom line produces results—and pain. Since 1992, GE has extracted huge concessions from suppliers, while trimming its list of vendors by nearly two-thirds, to 500. The unit has also slashed its workforce almost in half, to 23,000. And with sales growth stalled, GE wants to cut costs an additional 30%. Workers fear more layoffs, though GE won't comment on such speculation.

Eugene F. Murphy, who heads the engine division, acknowledges the dislocations that downsizing has caused but argues that GE had no choice. "It's incumbent on us as GE leaders to shape the business to the realities of the marketplace," says Murphy, 59, a onetime CIA staff lawyer and veteran GE executive who took over the division in 1993.

The aircraft-engine unit clearly needed help in 1992, when demand for new engines plummeted as money-losing commercial airlines and the Pentagon slashed orders. From 1991 to 1993, profits tumbled 43%, to $798 million. Worse, margins slipped below the 15% Welch looks for at all his divisions, to just over 12% in 1993.

With business shrinking, GE decided to adopt "target costing." Rather than price an engine by calculating its costs and adding a profit, GE worked backward. It would first determine what a customer was willing to pay in the competitive environment and then lower costs accordingly to maintain its profits.

MURPHY: DOWNSIZING HURTS, BUT IT WORKS



To make it work, GE first approached airline customers, including United Postal Service and American Airlines, to find out how it could redesign engines to reduce costs. In the case of the CF6-80C2 engine for the 747 and 767, for example, GE found it could lose the air manifold, a $10,000 valve that regulates air flow around an engine to adjust thrust. Though it helped save fuel, customers felt its cost outweighed its benefits. Now, GE is redesigning other engines, including the one it's planning for the Boeing 737X, a new short-haul commuter plane. GE has vowed to cut 30% off the initial estimated cost of the engine core, which generates thrust.

TOUGH MASTER. GE has also been working with its remaining suppliers to lower parts costs. Robert Donahue, vice president for sales and marketing at Wyman-Gordon, which makes high-temperature materials, says a GE team constantly monitors his company's progress on improving manufacturing techniques. In turn, Wyman-Gordon is pressuring its suppliers to get more efficient. Of course, not everyone is happy with GE oversight. Steve Moore, in charge of the GE account for Advanced Fabrications/Flameco in Ogden, Utah, which welds metal parts, says GE is demanding another 15% price reduction over the next three years, on top of 15% last year. To help meet those goals, the company has cut employment in half in recent years, to 15[illegible]. "Over the last three to four years, we've noticed a significant worsening relationship" with GE, says Moore. Still, Moore, who counts GE as one of his biggest customers, isn't about to ignore GE's targets.

Not surprisingly, GE's cost-cutting campaign has taken its toll on employees—and not just factory workers. The white-collar engineering staff, which peaked at 10,000 in 199[illegible] was slashed to 4,00[illegible], leaving behind much bitterness. "Welch destroyed aircraft engines in my mind," says John Zurbrick, an engineer who was let go in 199[illegible]. Zurbrick is among 43 former white-collar employees who are suing GE, alleging that the aircraft-engine unit violated its policy of providing work at other GE sites for laid-off engine workers. GE, which settled a similar suit last year, says the latest suit has no merit.

GE has also been pressing for productivity improvements from its lean workforce. GE first took a hard line to persuade the United Auto Workers union to accept work-rule changes, such as assigning employees multiple jobs. The company transferred some operations from Evendale to other plants where

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union and nonunion workers were more cooperative. Between job cuts and the transfer of operations, employment at Evendale has slumped from 20,000 to 8,000. Ed Willis, president of Local 647 of the UAW, admits the union should have been more flexible. Still, resentment lingers. Moving operations was a method of "punishing the union," says Tim Mason, vice-president of the UAW local—a charge GE denies.

GLITCH-FREE. Despite the pain, the results have been impressive. New-engine orders once took 24 months but now take close to six months. More significant, GE is now the lowest-cost producer in the business. Even though Pratt & Whitney is in the midst of its own downsizing, Pratt President Karl J. Krapek reckons that his company's operating costs are still 8% higher than GE's, though the gap is narrowing. And quality remains unchanged. GE customers say less than 0.01% of aircraft departure delays are due to engine problems. On the marketing front, GE captured two-thirds of worldwide orders for large commercial aircraft engines last year.

GE still isn't out of the woods. Murphy doesn't see a rebound until 1997, when airlines should step up orders to replace their aging fleets. Then, he's betting on the GE90, the biggest and most advanced commercial jet engine ever built, to power sales. GE, along with its partners, France's Snecma, Japan's IHI Heavy Industries, and Italy's Fiat, has spent $1.5 billion developing the engine for the new Boeing 777 widebody that will start flying commercially this summer.

GE has company: Both Pratt and Rolls-Royce are eyeing the same market

Unfortunately for Murphy, both Pratt and Britain's Rolls-Royce PLC are eyeing the same market. And all three are being forced to bargain. Pratt acknowledges that it's offering discounts averaging 77% to win initial orders for its new PW4084 engine, its competitor to the GE90. Still, Murphy believes that double-digit revenue growth for the aircraft-engine division is just a couple of years away—not a moment too soon, when you have a boss like Jack Welch looking over your shoulder.

By Tim Smart, with Zachary Schiller, in Evendale, Ohio

WILL GE'S ENGINES HAVE TO PROVE THEMSELVES IN COURT?

Are the General Electric Co. jet engines that power F-16 fighters and other military aircraft safe? GE thinks the question is absurd. But that hasn't stopped the U. S. Air Force from spending $200,000 testing parts of an F110-GE-129 engine at a plant in Mason, Ohio.

At issue is whether GE engine parts stand up to electromagnetic interference (EMI). Deputy Defense Secretary John M. Deutch ordered the study last June after the U. S. Justice Dept. joined a lawsuit against GE filed by Ian Johnson, a GE engineer. Johnson alleges that the company falsely told the government that thousands of its engines met bonding specifications for withstanding lightning—even electromagnetic pulses from a nuclear explosion—without parts overheating or failing. Without agreeing to the suit's merit, Justice joined the suit to protect the government's financial interest.

THE ENGINEER VS. GE: *Johnson alleges GE made false claims*

Though the Air Force isn't expected to reveal its findings for a few weeks, the legal jousting is heating up. The Justice Dept. disclosed in a court filing on Apr. 3 that it believes GE knowingly misrepresented and falsely certified that one GE engine line, the 129, met requirements. Justice, which has until Apr. 17 to amend the suit against GE, says it hasn't decided whether to pursue the case. GE denies the government's allegations. The company, which has been cooperating with the Air Force, says it knows the test results and they will confirm that the engines are safe. GE is pleased that Justice has narrowed its interest, so far citing only one engine line, involving several hundred engines. Johnson's suit covers 7,000 or more. The case goes to trial in federal court in Cincinnati on Sept. 12.

A member of a GE task force on bonding, Johnson says he first went through GE's internal review process to complain about possible problems. When he received no satisfaction, he says he hired attorney James B. Helmer Jr. in 1993. The pair then went to the Federal Bureau of Investigation, which wired Johnson to secretly tape conversations at GE for five months. Helmer says top GE engineers agree on tape that they weren't meeting the required standard. Using the False Claims Act, Johnson sued in December, 1993, on behalf of the government, and he could share in any judgments against GE. "I knew I was right," says Johnson, a native of Britain who went to work for GE in 1986.

FAA O.K. GE insists it thoroughly investigated Johnson's claims and contends that it met all contract specifications. Henry A. Hubschman, vice-president and general counsel at GE Aircraft Engines, argues that no GE engine has ever failed because of bonding problems and no customers were misled about what they were getting. He also asserts that no one suffered damages and that the military specifications are so ambiguous as to be "meaningless." What's more, the Federal Aviation Administration says it has found no bonding problems with commercial GE aircraft engines, as claimed in Johnson's suit.

Still, the allegations have caused GE no small headache. Attorneys at GE Aircraft Engines have spent enormous time on the case. The division can ill-afford another legal defeat. It pleaded guilty and paid $69 million in fines and penalties in 1992 after its employees helped divert foreign aid to an Israeli general and a GE executive in connection with military engine sales to Israel.

Even if the Air Force finds nothing wrong with GE engines, the suit isn't about to go away. The tests don't answer the question of whether GE made false claims, as the lawsuit alleges. That means Johnson could get his day in court after all.

By Zachary Schiller in Evendale, Oh

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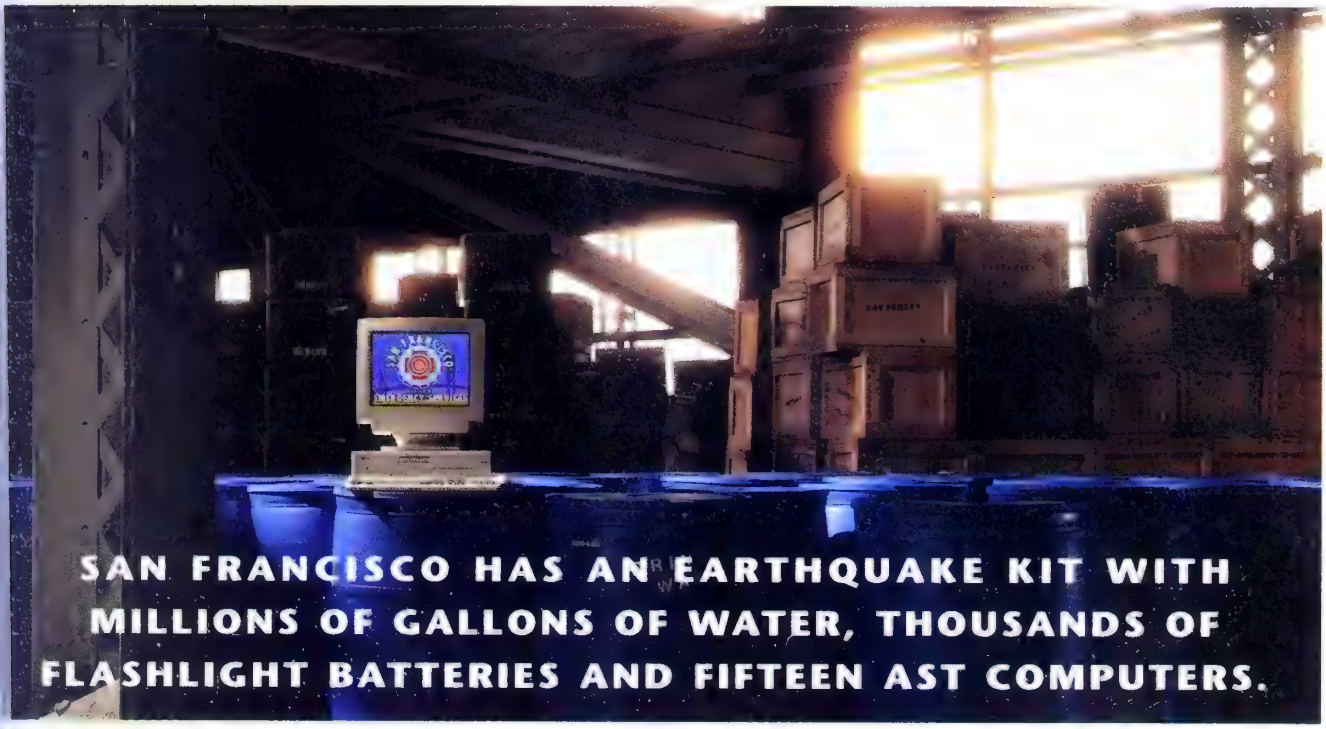

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INSIDER TRADING

NYNEX AND AT&T CAN'T HANG UP ON THIS SCANDAL

An SEC probe may link insider trading to earlier charges of sex parties in the '80s

Back in 1990, Nynex Corp. became the center of a lurid scandal involving bawdy parties at Florida hotels held annually by its suppliers. The explosive disclosures surfaced during a regulatory proceeding in a state rate case for Nynex' New York Telephone unit. After investigations by the company and the state utility commission didn't produce information that might have led to criminal charges, the issue of what dozens of party-goers dubbed the "perverts' conventions" faded away.

Until now. BUSINESS WEEK has learned that the Securities & Exchange Commission is taking a look at the retreats as part of its ongoing investigation into a sprawling insider trading ring. On Feb. 9, the SEC charged that a group of 17 friends—many of whom had worked together at New York Telephone when it was part of AT&T—allegedly reaped $2.6 million trading on illegal tips on AT&T's plans to take over several companies. On the same day, the Justice Dept. brought criminal securities fraud charges against six of the alleged insider trading ring members.

WHAT DID EXECS DIVULGE—AND WHEN?

Now law-enforcement officials are trying to find out if the two scandals are linked. The weeklong retreats, from 1984 to as late as 1989, may have overlapped with some of the alleged insider trading, which took place from 1988 to 1991. On Apr. 5, the SEC issued at least two subpoenas requesting information about the retreats, including the closely guarded names of attendees, according to Scott J. Rafferty, a former Nynex employee who received one of the subpoenas.

One of the few names made public during the Nynex scandal was Lawrence Friedman, a former Nynex vice president who arranged the parties. Friedman is also a member of the insider trading group charged by the SEC. And sources say at least two others named in the SEC's complaint are on the secret list of those who attended the retreats: Thomas Alger, one of the two ringleaders, and Robert Flanagan, who was scheduled to be Alger's roommate at the 1985 retreat at the Marina Bay Hotel in Fort Lauderdale. They were friends who had worked together at New York Telephone. Alger has pleaded guilty to criminal conspiracy, while Flanagan is fighting the charges. Alger declined to comment. Friedman through his lawyer declined comment. Flanagan could not be reached.

"SECRET SOCIETY." William R. McLucas, the SEC's enforcement chief, also declined to comment. AT&T and Nynex weren't accused of any wrongdoing in the trading scheme. AT&T had no comment. Nynex still refuses to discuss the Florida meetings, citing its policy against disclosing personnel matters. In the New York rate case, the company contended that such disclosure could strain marriages and hurt company morale. Nynex also argued that the identities of those who attended and the companies they represented, as well as alleged prostitution and other convention activities, are "trade secrets" that needn't be disclosed. Accepting that argument, an administrative court judge ordered that the names remain under seal. "If Nynex publicly disclosed their names, the wrongdoers wouldn't have been able to keep the secret society together

TOO CONNECTED?

MID-1988 Nynex investigates lewd gatherings of employees at Florida hotels from 1984 to 1988. Two convention organizers were dismissed, including Lawrence Friedman. In February, the SEC alleged that Friedman was involved in an illegal insider trading ring.

DEC. 1988 The SEC says the insider trading scheme started when Charles Brumfield, an AT&T executive, obtains nonpublic information about AT&T's plan to buy Paradyne. He tips two former AT&T executives.

NOV. 1990 Brumfield learns of AT&T's plans to acquire NCR and passes it on to Thomas Alger and others. During the next year, says the SEC, Brumfield passes tips about AT&T's takeover of Digital Microwave and Teradata.

FEB. 1995 The SEC files charges against 17 people, including Brumfield and Alger, alleging they made illegal insider trading profits of $2.6 million.

APR. 1995 SEC starts exploring whether the Nynex gatherings and the AT&T insider trading ring are linked.

DATA: BUSINESS WEEK

· to do their insider trading," says afferty, who alerted the SEC to the ynex tie.

The SEC's new focus on the Nynex arties could reveal the full extent of hat is already one of the largest insid- · trading rings. The scheme was or- nestrated by Alger and Charles L. rumfield, both AT&T labor relations xecutives, the government charges. he men passed confidential informa- on to friends and relatives about the ompany's plans to acquire four compa- es—Paradyne, NCR, Digital Micro- ave, and Teradata—the SEC complaint ys. After the participants illegally aded on the information, they passed ick $300,000 of the illicit profits to lger and Brumfield, who is known as Big Red" because of his red hair. rumfield also pleaded guilty to crimi- l conspiracy.

D-DEBT SCAM. Another alleged partic- ant was Joseph Penna, a union repre- ntative for 2,000 technicians and cler- l personnel at AT&T's computer unit, o negotiated contracts with Brum- ld. Three days after AT&T had an- unced a $6 billion takeover of NCR, nna denounced the deal in an inter- w with the Newark (N.J.) *Star Led-* r. "I'm not going to stand by and al- v that," he said. But just days before deal was announced, Penna alleg- ly made more than $36,000 in illegal ofits from trades based on informa- n about the imminent proposal, ac- ding to the SEC complaint. Penna had comment.

One of the men under criminal in- tment has been in trouble with the before. Joseph A. Cusimano, a for- r executive vice-president of Interna- nal Games Inc. in Joliet, Ill., pleaded lty in 1992 for his part in a scheme conceal $173,000 in political contri- ions. He was sentenced to three rs' probation and fined $99,000. Cusi- no, a friend of Brumfield, was the gest profiteer in the insider trading eme, making more than $865,000, ac- ding to the SEC. The agency's com- int also alleges that Cusimano falsi- l a promissory note to cover up ments he made to Brumfield in re- n for inside information. His attorney s Cusimano expects to be acquitted his trial.

All six of the defendants in the crim- case have pleaded innocent. Their l is scheduled for the fall. The SEC, nwhile, is pursuing its case against 17 individuals it has identified as t of the insider trading ring. With renewed prosecutorial interest in frolicking in Florida, that number ld go higher.

By Michael Schroeder and Mark yn in Washington

COMMODITY OPTIONS

WHAT'S A SMALL INVESTOR LIKE YOU...

Many are being lured into options on futures, unaware of risks

When Ezio Lombardi responded to a radio ad pitching a great new investment, the 50-year-old railroad mechanic from Denver thought he couldn't miss. Commonwealth Financial Group of Florida convinced the Italian immigrant he could earn back money lost in a penny-stock scam involving another company. But four months later, Lombardi's $92,000 stake had withered to just $6,000, with nearly half his funds eaten up by commissions.

Penny stocks strike again? Nothing quite so simple: Lombardi lost his money in options on futures contracts. These investments allow investors to bet on whether the price of commodities such as gasoline, cotton, or live hogs will rise or fall. If they're right, they can sell their contracts at a profit. If they're not, the contracts expire, worthless.

NAIVE In buying options on, say, orange juice, the average investor is ill-equipped to gather the info needed–let alone understand it

HARD SELL. While these complex derivatives mainly attract professional traders, a growing number of unscrupulous commodity-options firms are targeting small investors. For the most part, it isn't the investments themselves that are the problem. It's how they're marketed: Futures regulators say unsophisticated investors are being oversold on potential profits, underinformed about risks, and overcharged in commissions.

Brokers find selling options on futures to retail investors attractive for several reasons. Options lend themselves to a compelling sales pitch: Investors can lose only the "premium"—the money they invest up front—while profits can be many times the initial investment. In contrast, investors can lose far more than their initial investment with straightforward futures contracts—and brokerage firms can be on the hook if investors refuse to send in more money to cover margin calls.

In addition, because the average investor is ill-equipped to analyze options on futures, it's tough for them to make informed decisions. While sophisticated buyers have the skill to analyze properly the many factors driving the price of, say, orange juice, average investors are ill-equipped to gather the information

ELIZABETH LADA

themselves—let alone understand the complex mechanics of the options market. For example, court records show one trade where Lombardi was told that for every 1¢ increase in the futures price of heating oil, his option position would make him $420. But options seldom move in lockstep with futures. And since market volatility and the time left before the option expires may affect option values as much as the underlying commodity price, such profit predictions are rarely accurate. Add to the mix the fact that firms aren't required to determine whether options on futures are, in regulatory parlance, "suitable" for investors, as stockbrokers must, and it's a situation ripe for abuses.

Brokerages that specialize in options are a hydra-headed bunch. When one firm's profitable life is cut short by regulatory pressure, another springs up in its place. Yet operators at commodity-options firms frequently stay in the business even after coming under fire from regulators. The employment history of Charles P. Hoffecker, the owner of Commonwealth Financial, is a case in point. Hoffecker previously worked at two firms during 1990 and 1991—First Sierra Corp. of Virginia and Trinity Financial Group of Florida—that shut down amid regulatory concerns. Since 1992, at least 10 options firms have shut their doors after regulators brought charges against them, according to the National Futures Assn.

"NO FRAUD." Now, it's Commonwealth's turn to attract regulatory scrutiny. The Commodity Futures Trading Commission (CFTC) recently targeted five firms in South Florida, including Commonwealth, that together had racked up customer losses of nearly $60 million. Three of the firms quickly shut down, but Commonwealth and another firm mounted strong legal defenses. On Aug. 31, a federal judge concluded that Commonwealth had indeed misled Lombardi and several others but that regulators had failed to show a pattern of systematic fraud. Commonwealth was free to operate as long as it maintained safeguards such as an independent review of taped sales calls. But after regulators returned to the judge with more evidence, he issued a harshly worded ruling on Dec. 28, saying that the firm was continuing to defraud customers even though under a court order to desist. Commonwealth was held in contempt of court.

Commonwealth's Hoffecker vows to pursue his court battle. "There was no fraud," he says, charging that he is being blamed for customers who gambled away their money while fully aware that commodity trades would be highly risky. Hoffecker describes Lombardi, who recovered part of his losses in a settlement with the firm, as a savvy investor feigning ignorance. And Hoffecker points out that Commonwealth provides a risk-disclosure statement making it clear that options on futures aren't f everyone. "No one puts a gun to h head. If he sends more checks and mo checks, whose fault is that?"

Regulators, though, say many inve tors are bamboozled by such time-ho ored boiler-room practices as the ha sell. In all the recent cases, regulato found some brokers who exaggerat the likelihood of fat profi and minimized the risk loss (table). Fast-talkin brokers would gloss ov commission charges and i flate the likelihood big profits, such when a broker fro the defunct Trini told prospects th could expect gains 200% to 300%. In fa most of the firm's custo ers were losing money.

OUTSIZE FEES. Hefty comm sions make it tough for custome to come out ahead. Typical small investors a unaware that co missions at respe ed firms can be s prisingly low. F example, Chica discount commod broker Lind-Waldock Co. charges as little as $5 for certain tions trades, and no more than $ Commonwealth, which offers advice b yond what discount brokers offer, bil Lombardi and other customers $200 trade, a typical rate for firms target in regulatory actions. Options fir claim that customers can make mor even when paying such fees. With t leverage that options on futures affo a modest market move can compens for those charges, says Hoffecker. B the court's Dec. 28 ruling found th Commonwealth customers profit o when they bet correctly on "dramat market moves.

To top it all off, a CFTC analy shows that Commonwealth has tak even more money from its custom in fees than its customers have lost the market. The firm's commissions $10.3 million between October, 1992, a August, 1994, represented 53% of c tomer losses.

The rise in commodity-options fra may well result in tougher laws. B in the meantime, the words of Joseph Vargyas, a CFTC regional counsel, worth heeding: "Options are no exc tion to the adage that if it sounds good to be true, it probably is."

By Greg Burns in Chic

THE PITCH

Below are excerpts from court transcripts of taped sales calls illustrating what regulators allege are misleading sales pitches for purchases of options on futures contracts.

- To convince customer to purchase heating-oil options, salesperson informed customer that he could lose his entire investment but that "there was a remote possibility of losing everything" and "how can you lose when people are still buying heating oil?"
- Salesperson "made the investment seem virtually risk-free, to the point that the prospect had to bring up the issue, telling [the salesperson] that it cannot be that easy."
- Salesperson repeatedly told client that if the market went against him, the equity would not be lost. He said that a $33,000 profit was a "very conservative" projection, and if the client did not make a lot of money, he would be left with his original investment.
- Salesperson spoke "very little about the risk involved in commodity options but talked a great deal about the $20,000 to $30,000 in profits I would make in one month on a $5,000 investment."

DATA: COURT DOCUMENTS

Fast-talking brokers gloss over commissions and exaggerate the likelihood of fat profits

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DEALS

LAND OF MILK AND HONEY —AND EQUITY

All of a sudden, the smart money is pouring into Israel

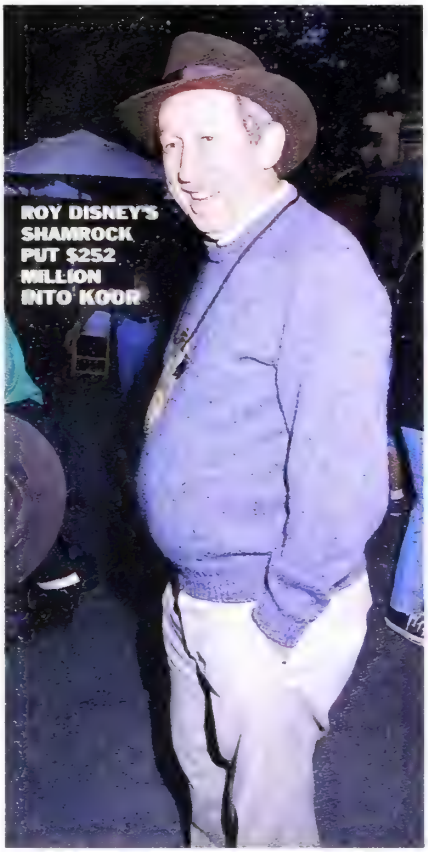
The Mideast peace process may not be moving along as quickly as many would like. And limited Palestinian self-rule didn't end terrorism against Israel. But that hasn't stopped some very rich, very savvy investors from making large equity investments in Israeli industry. Among them are Laurence Tisch, chairman of Loews and CBS; Charles Bronfman, co-chairman of Seagram; and Roy Disney, nephew of Walt.

Disney in Israel? You bet. Roy Disney's private investment company, Shamrock Holdings Inc., last month paid $252 million for a 22.5% controlling interest in Koor Industries Ltd., a conglomerate that is Israel's biggest industrial concern. It's the largest foreign investment ever made in the Israeli economy. "It's no longer just the sentimental investor who is putting his money here," says an investment banker who was close to some recent deals.

NEIGHBORLY. The combination of a strong economy and a weak equity market is what's luring the big money. In the past five years, the economy has grown by 33% in real terms, and real gross domestic product is forecast to climb an additional 5% in 1995. The Israeli stock market soared 158% from 1992 through January, 1994, but since then, higher interest rates, inflation, and insider-trading scandals have sent prices down more than 40%.

The fall in stock prices has cut the average price-earnings ratio to 11, about half what it was at the peak. "The stock market is depressed, but the economy is in good shape, and the market will ultimately reflect the values that are really in the economy," says Shamrock President Stanley P. Gold.

Koor's leading lines include telecommunications, chemicals, electronics, and building materials. The company, says Gold, is "inclined to do business with its Arab neighbors," which could pay off handsomely if peace comes to the region. Shamrock paid 20% above the market price for its Koor stock, and Gold says he would consider buying more. Koor is Shamrock's second-largest investment after its Disney stock.



ROY DISNEY'S SHAMROCK PUT $252 MILLION INTO KOOR

POTENT COMBO "The stock market is depressed, but the economy is in good shape," says Shamrock President Stanley Gold

Also piquing foreign investors' interest is a government-sponsored privatization program. In quick succession, the Israeli government sold over $650 million in assets in just the past two months. The government's target for 1995 is to sell $1.5 billion in state assets, and it hopes to sell an additional $5.8 billion over the next two years. The latest state-owned company to go on the block is Israel Chemicals Ltd., which is looking to sell a 22% stake for at least $200 million. The government has already sold a 24.9% interest in the chemical company to Shaul Eisenberg, an international dealmaker, for $231.5 million. Eisenberg outbid Ted Arison, founder of Carnival Cruise Lines Inc.

Foreign investors long ago discovered Israel's high-tech companies, many of which are world leaders in their fields. Hedge-fund king George Soros made a $60 million investment in Indigo less than two years ago and has quintupled his money.

Investor interest now extends to less glitzy companies. Earlier this year, Renaissance Group, a partnership that includes Bronfman, Tisch, and a number of Goldman Sachs partners, paid $[illegible] million for a 25% stake in Shikun U'Pituah, once the state-owned construction company. Late last year, Renaissance paid $100 million for a 33% stake in Paz Oil Co., Israel's largest fuel company. Bronfman already holds investments in a number of leading Israeli companies—including Teva Pharmaceuticals, ECI Telecom, and Osem—through his personal investment company.

BANK SHOTS. Even bigger deals are in the offing. Three separate investment groups have lined up to buy a controlling stake in state-owned Bank Hapoalim Ltd. One group includes Arison and Renaissance. Another includes Bear Stearns & Co., the U.S. investment bank, and a third group is headed by Canada's Ghermezian brothers, who have extensive real estate holdings in Canada and the U.S. The 25% interest in the country's largest bank could go for as much as $500 million.

Not every bidder becomes a buyer. Banker Edmond Safra, who controls 28% of Republic New York Corp., was negotiating to buy Bank Leumi, Israel's second-largest bank, but dropped out. Days later, Las Vegas hotel magnate Sheldon Adelson said he might bid for the bank and for state-owned El Al Israel Airlines Ltd.

In shedding state-owned companies, Israel is burying its socialist past. "Israel has begun to do things that allow businesses and investors to flourish," says Gold. If this vanguard of capitalism hits pay dirt, others will soon find the way to the Promised Land.

By Neal Sandler in Jerusalem, with Nanette Byrnes in Los Angeles

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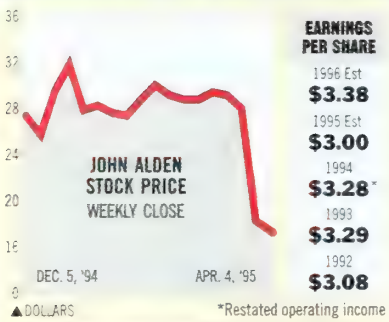
BY GENE G. MARCIAL

THE JOHN ALDEN SCARE IS 'A GIFT'

What happened to John Alden Financial (JA) on Mar. 31 was a classic case of panic. Investors headed for the exits when the group-life and group-health insurer announced that it was restating fourth-quarter results and would miss the Street's first-quarter earnings forecast because of an unexpected jump in claims. In fact, the stock started to weaken the afternoon of Mar. 30, after John Alden officials called some analysts to inform them—in confidence—of the changes. The next day, the stock tumbled 38%, from 29⅝ to 18½. On Apr. 5, John Alden closed at 18¾.

PUT IN PLAY BY PANIC?



*Restated operating income

DATA: BLOOMBERG FINANCIAL MARKETS, FIRST CALL CORP.

But guess what: When there's a sale, there are buyers. And some of them were smart-money investors. "Talk about a gift—we think this is one," says a New York hedge-fund manager, who contends John Alden is one of the few "quality, conservatively managed insurers around." One big trader says Richard Rainwater bought 1 million shares at around 18.

Many new investors liked the company even before the collapse. They say that the fundamentals are sound and that John Alden is one of the more attractive insurance takeover targets. Rainwater did not return calls.

"By torpedoing the stock, panicky shareholders have practically put the company in play," says James Awad of Awad & Associates, a New York investment firm. "It has become an even more enticing takeover candidate. We've purchased a ton of shares since Apr. 3. At this price, a financial-services biggie is sure to go after it."

True, John Alden Chairman and CEO Glendon Johnson admits he doesn't yet know how big a problem the surge in claims may present. He says it's still too soon to tell whether the increases represent a trend. But, Johnson adds, the company will continue to raise its rates in health care, cut expenses, and review claim-processing operations for improved efficiency.

Analysts have been quick to slash earnings estimates. The company itself admitted that earnings would be 20% to 25% below expectations. For all of 1995, analysts had expected $4.19 a share but have cut that to $3. For 1996, they see a slight uptick, to $3.38.

CEPHALON'S BIG-NAME FANS

Cephalon (CEPH) President and CEO Frank Baldino complains that the company is getting no respect on the Street—even though it's the "brain specialist" among biotechs. The stock has stayed at 6 to 8 this year, closing at 6⅞ on Apr. 5.

But things may perk up quick, says a Boston money manager who has started buying. He says that one of Cephalon's six strategic partners—which include Schering-Plough, Bristol-Myers Squibb, and SmithKline Beecham—will make a bid before long. "These research partners hold Cephalon in high esteem," says one fund manager. In Cephalon's pipeline are therapies for neurological disorders such as Alzheimer's disease, narcolepsy, and stroke.

Cephalon expects results soon from just-completed clinical tests on Myotrophin, a potential treatment for Lou Gehrig's disease. Cephalon is developing the drug in conjunction with Chiron. Chiron has acquired a 4.4% stake in Cephalon. Some investors are excited about another Cephalon drug currently marketed in France: Modafinil, for treating narcolepsy, a sleep disorder. They think increasing European sales of Modafinil alone could make Cephalon profitable.

SmithKline's research tie-in with Cephalon is in calpain inhibitors—to deal with the neurological consequences of strokes. With Schering-Plough, Cephalon is developing a treatment for Alzheimer's. And Bristol-Myers is co-promoting a nasal spray for migraines. What does Baldino think of speculation that one of his strategic partners may bid for Cephalon? "Our partners know us well and know our value, so I wouldn't be surprised if some of them were interested," he says.

AGCO COULD REAP A GOLDEN HARVEST

Few expect tilling the soil to be earth-shattering. But to some Street pros, farm-equipment maker AGCO (AG) comes close to providing excitement in an otherwise dry field. What's the deal?

Nothing but surprises, really. The company, which in June acquired the international operations of heavy-machinery maker Massey-Ferguson, has consistently exceeded analysts' projections. In 1994's fourth quarter, AGCO profits jumped 95%, to $1.11 a share, up from 57¢ a year ago—sharply higher than the 92¢ forecast.

That has made analysts hike their long-term projections. Diane Grabosky of Dillon Read has raised her 1995 figure to $4.40 a share and 1996's to $5.05. The company made $3.43 last year. But one AGCO insider thinks those numbers are low: With the integration of Massey-Ferguson running ahead of schedule, this pro figures AGCO will continue to outpace forecasts. Bolstered by strong exports, the U.S. farming outlook has greatly improved.

AGCO is eyeballing a major European equipment maker that, if acquired, would make AGCO No. 1 in Western Europe. A larger European company, however, is also after that equipment maker.

AN EASIER ROW TO HOE?

DATA: BLOOMBERG FINANCIAL MARKETS

AGCO is a compelling buy—compared with its competitor Deere, according to Tobias Levkovich of Smith Barney. He says that Deere trades at a price-earnings ratio of more than 9, vs. AGCO's 6.2, based on his 1996 estimate of $5.10 a share. AGCO Chairman and CEO Bob Ratliff doesn't doubt that he will surpass the Street estimates again. Our secret, he says, is simple: "No excess capacity, excellent distribution, and multiple equipment brands."

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TELECOMMUNICATIONS

CALL AMERITECH A BABY BELLWETHER

Its early foray into long distance may show the way for rivals

In all the wrangling over how to restructure and deregulate the U.S. telecommunications industry, Ameritech CEO Richard C. Notebaert has kept his eye on a simple goal: to get into the long-distance business as soon as possible. Sure, like any Baby Bell executive, he's preparing to jump into cable TV and electronic commerce. But nothing can give the enormous and nearly instantaneous boost that long distance can.

CEO NOTEBAERT: *The deal with the Justice Dept. is "a monumental step forward"*

It's simple: Ameritech Corp.'s local business is growing at 2.7% a year, and long-distance calling in its region—Illinois, Michigan, Indiana, Ohio, and Wisconsin—is growing at around a 10% rate. And, 57% of the long-distance calls originating in Ameritech's area finish there.

"ACTUAL COMPETITION." So when the Justice Dept. offered a shortcut into the long-distance business, Notebaert jumped. After months of haggling with potential rivals and federal regulators, on Apr. 3 Ameritech agreed to a Justice proposal that will permit the company to offer long-distance services in Chicago and Grand Rapids provided Ameritech opens those markets to all comers. Says Notebaert: "This is a monumental step forward."

To be less hyperbolic, it's a start. But it puts Ameritech ahead of the other Bells, which await federal legislation to let them into the long-distance business. Just a day after Ameritech inked the Justice deal, the prospects for passing a telecom bill dimmed when Senate Republicans postponed action because of a squabble with the White House. Now, say Washington insiders, the chance of getting a bill in 1995 are less than 50-50.

That could give Ameritech a lead of months or more. To get it, however, the company did have to compromise. Notebaert settled for a limited two-city trial and backed off his original proposal, offered to the Justice Dept. and the Federal Communications Commission in 1993, which called for simultaneously opening local and long-distance markets. Ameritech must prove that there is "actual competition" in its local markets before the trial can commence next year.

The deal also required concessions to carriers such as AT&T and MFS Communications Co., a bypass company that connects Chicago businesses directly to long distance networks. Sources close to the negotiations say these rivals convinced Justice that simultaneously opening long-distance and local markets would give Ameritech an unfair advantage i its home markets. Even under the fin agreement, says Ameritech Executiv Vice-President Thomas P. Hester, th market openings "will be close enoug to be simultaneous."

Indeed, the Justice-Ameritech agre ment could be a blueprint for compet tion nationwide—resolving a host of i sues that have stymied Congres Ameritech, for instance, has agreed unbundle its local network and sell pie es, like switches and cables, to riva who want to start local service. Amer tech has also agreed to interconnect i system with those of its competitor so customers will get seamless servi no matter which local company the choose. Just two months ago, it took order by the Illinois Commerce Co mission to force Ameritech to mak such connections for MFS in Chicag Says MFS President Royce J. Hollan "This deal meets all of our tests."

BRAND IDENTITY. But it has infuriat other Bells. A Bell lobbying group, well as Nynex and Bell Atlantic, public denounced the Justice Dept. deal. "I not a substitute for congressional legis tion," says a Nynex spokeswoman. Be say bringing in Justice only adds a ne regulatory layer. The real beef, sa Notebaert: "We're w ahead of the rest of t industry."

The $13 billion co pany won't see mu immediate gain, b analysts figure Ame tech's head start w cushion the shock of cal competition. Anth ny F. Ferrugia, an a lyst at A. G. Edwar says he expects t "new revenue strea to offset any reducti from the core bu ness." Notebaert h been readying Ame tech for competition years—launching a billion cost-cutting ca paign, boosting mark ing efforts to ma Ameritech a famil brand name, and h ing dozens of new ecutives from com nies such as Bord American Express, a MCI. True, every regional phone com ny is doing similar things. The diff ence is Ameritech will find out firs the strategy actually works.

By Kevin Kelly in Chic o

Give A Little, Get A Little

WHAT AMERITECH GETS

Ameritech will be permitted to offer—on a trial basis—long-distance service in the Chicago and Grand Rapids markets sometime in 1996. The company hopes that regulatory approval allowing it to offer long-distance services, which is an $8 billion market in Ameritech's five-state region, will quickly follow.

WHAT AMERITECH GIVES UP

In return for the long-distance trial, Ameritech has agreed to open itself to local competition in Chicago and Grand Rapids. AT&T, Sprint, and MCI have expressed interest in jumping into its largest market—Chicago

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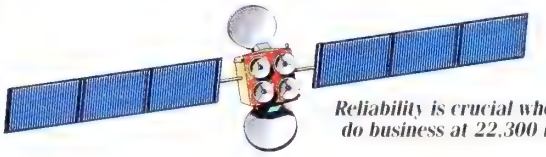

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QURESHEY: *"We were trying to d too many things at the same tim*

PERSONAL COMPUTERS

CAN SAMSUNG USHER AST TO A FRONT-ROW SEAT?

How the Korean giant could turn the computer maker around

Just 18 months ago, it looked as if AST Research Inc. was poised to leap to the top tier of personal-computer companies. While Compaq, Dell, and Apple were still recovering from earlier fumbles, AST was purchasing Tandy Corp.'s computer-making operations at fire-sale prices. The new factories and access to more than 6,500 Radio Shack and Computer City stores would surely push AST from No. 6 to No. 4 in the U.S., the company bragged.

It never happened. Instead, AST took its eye off its core business for a split second, and the fast-moving PC industry passed it by. Now, AST is mired in the second tier, behind such mail-order companies as Dell Computer Corp. and Gateway 2000. For its first six months ended Dec. 31, AST piled up losses of $62 million. Worse, while the rest of the industry was racking up double-digit sales growth, AST's revenues shrank by 5%, to $1.1 billion. And for the third quarter, which ended Apr. 1, the company is predicting further losses. "We were trying to do too many things at the same time," admits Safi U. Qureshey, chairman and chief executive of the Irvine (Calif.) company. "We couldn't execute new products on time, we couldn't take them into manufacturing on time, and we couldn't deliver them on time."

AST has stumbled before and recovered. But this time, a cash-strapped Qureshey—AST was down to $69 million at yearend—was forced to take a drastic step: In addition to the usual cutbacks and restructuring, including closing two plants and laying off 10% of the 6,500-member workforce, the 44-year-old executive has acquired a rich partner to see AST through. On Feb. 27, he persuaded Korea's Samsung Electronics Co. to pay $378 million for a 40% stake and six seats on AST's expanded 13-member board.

AST nets $250 million in new capital. More important, Samsung's leading-edge screens and its memory-chip technology could give a badly needed boost to AST's PC lineup. "We'll be able to influence their design," says Qureshey.

For now, AST is a player that is trimming its ambitions. The company has dropped out of the education and government markets and, even though it had started advertising a line of subnotebook PCs, it will not produce them. Also scrapped: a Tandy line of handhe personal digital assistants and confusing array of brand name such as Victor, PowerExec, a GRiD. The result: AST's price shee list just 79 systems, compared wi 225 last fall.

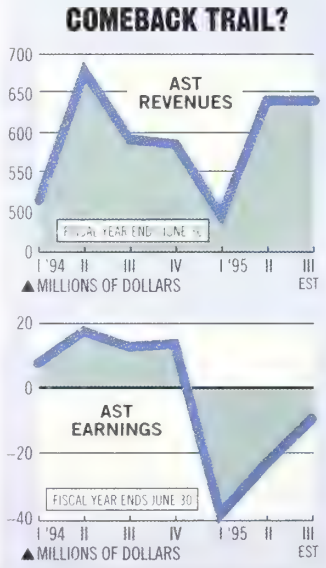
NEW NICHE. In home compute which now make up one-third AST's sales, the company will longer pursue bargain-hunting fir time buyers. Instead, it will foc on the more knowledgeable cons mer who wants a high-performar PC but doesn't want to pay a pre um for the Compaq brand. "W think we can own the position betwe Packard Bell and Compaq," says Jam T. Schraith, AST's president.

So what does Samsung get for 40% stake? For one thing, more of AS business—including more than 1 milli computer monitors a year that AST n buys in Taiwan. And the AST link vl give Samsung an entrée into the wor wide PC business. Samsung is the top maker in South Korea, but it has be unsuccessful in overseas markets.

Also, both companies are now in better position to play a role in te convergence of the computer and co sumer-electronics industries. Samsu is already a world power in TVs a VCRs, and Qureshey envisions tele sions and videocassette recorders t have a built-in connection to the information Superhighway. The two co panies have also discussed a "home n work" of appliances controlled by P

Qureshey's biggest challenge, h ever, may be to maintain AST as an dependent compa The A and T of S stand for the fi names of two o the company's th founders, Albert Wong and Thora C. K. Yuen, both h departed from company. Says Yu "When the honeym is over, we'll see a more decisions be made by Samsung x ecutives." If Safi reshey isn't care the S could soon st for Samsung.

By Larry A strong in Irv Calif., with La Nakarmi in Seoul



EDITED BY PETER COY

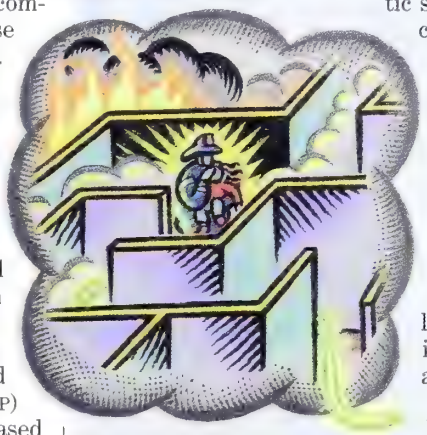
MOLECULAR FINGERPRINTS FOR NEW DRUGS

TERRAPIN TECHNOLOGIES INC. n South San Francisco, Calif., says it has developed a technique called molecular fingerprinting that helps scientists zero in on chemical compounds that hold promise for treating diseases. Terrapin Technologies' method, reported in March in the journal *Chemistry & Biology*, nvolves selecting about 30 chemical compounds hat are very different rom one another and esting each of them gainst a target protein. A computer program alled targeted rapid ffinity prototyping (TRAP) nalyzes the results. Based n which substances produce n effect, it figures out an leal compound—say, one hat combines the features of hree or four of the most successful test materials. Then searches a database of potential compounds—30,000 nd growing—for the one hat comes closest to matching the criteria.

The patented process may ound a bit crude for something as complex as a protein, but it seems to work, ys Dr. Fred E. Cohen, professor at the University of alifornia's San Francisco edical Center. Cohen was ked to investigate Terrapin r private investors—and is w negotiating an investent for himself. Lawrence . Kauvar, Terrapin's chief ientific officer, says the comny is homing in on a small olecule, which could be forulated as a pill, that would ld promise for controlling abetes. It is also following other one that has been own in animal studies to crease the population of ne marrow cells, which ould be useful after cancer emotherapy.

THROWING FIREFIGHTERS A 'LITELINE'

FIRE DEPARTMENTS CAN ENTER BURNING BUILDINGS with more confidence when they take along a LiteLine 360. This flexible plastic tube, made by Flexlite Inc. in Edison, N.J., contains a series of small, bright lights that illuminate smoky surroundings—and help firefighters retrace their steps to safety. How can lightbulbs cope with fire scenes? First, the polyvinyl chloride plastic sheath is waterproof and can withstand heat of 450F for up to 90 minutes. Second, the incandescent bulbs are so small that their filaments tolerate jostling—much as a tiny ant can survive a fall from great heights.



The Roselle (N.J.) fire department credits LiteLine with saving the lives of two of its people in a smoky conflagration at a paper warehouse last November. Since then, Flexlite President Paul R. Manley, a former Eastern Air Lines pilot, has started promoting the product abroad. In tests in Sweden, it was visible from a half-mile up in the air. It also helped divers see their way 50 feet underwater. Flexlite got a $150,000 order from Swedish fire departments in February. Price: $1,200 per 100 feet.

MACHINE TOOLS: FROM RUSSIA WITH LEVITATION

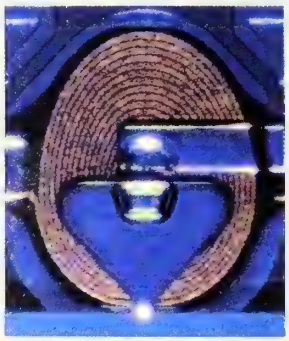
ENGINEERS AT NEW JERSEY Institute of Technology in Newark are trying to build superaccurate machine tools by teaming U.S. electronics wizardry and Russian mechanical skill. Reggie J. Caudill, executive director of the school's Center for Manufacturing Systems, says he was amazed at the sophistication of a grinder from Russia that the U.S. Army gave NJIT for evaluation. Both the cutting parts and the pieces being worked on are partially isolated from harmful vibration by cushions of air. In Western tools, only some of the relevant components are suspended by air jets. NJIT bought a Russian lathe that was even more impressive: As an additional means of eliminating vibration, Caudill says, the lathe's motor disengages after it gets the part spinning, relying on momentum alone to continue the rotation.

NJIT is working with AT&T, Motorola, Ford Motor, and others on using Russian techniques to build robots that could, for instance, precisely align optical fibers and lenses in optoelectronic gear. NJIT wants to add U.S. electronics to Russian tools, such as microscopic sensors and valves, that could counteract vibration by detecting and adjusting pressure fluctuations in the air cushions. Separately, Caudill hopes to produce a lathe that could shape lenses so perfectly that they would not require costly, time-consuming hand-polishing.

DENSE AND DENSER ON IBM DISKS

THE GOOD OLD HARD-DISK drive is showing more longevity than seemed possible in the 1980s. IBM, which set a record in 1989 by cramming 1 billion bits of data onto one square inch of disk surface, announced on Mar. 30 that it had boosted its world record to 3 billion bits—or 3 gigabits. That's nearly five times the density of the most advanced commercial disk drive: IBM's Travelstar LP 2.5-inch drive for subnotebook computers.

Vincent Marrello, manager of recording heads at IBM's Almaden Research Center in San Jose, Calif., attributes the latest advance to "exquisite engineering" rather

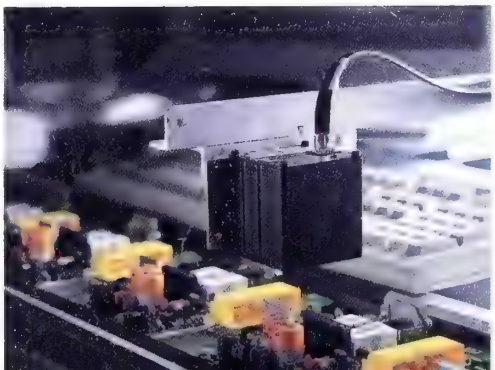


than some experimental technology. Engineers improved the cobalt-alloy recording surface, he says, by laying it down in a way that produces fine magnetic grains that still behave independently. They also shrank the heads that read and write (photo) to handle smaller bits. The head that reads works on the principle that electrical resistance fluctuates in varying magnetic fields. IBM is the only company mass-producing these so-called magnetoresistive heads.

ILLUSTRATION BY TIM GRAJEK, PHOTOGRAPH BY IBM

NOBODY IN THEIR RIGHT WANTS TO USE YOUR PRODUCT.

SO, HOW DO YOU KEEP UP WITH DEMAND?



Nobody really wants to use an air bag. But everyone seems to want one in their car. NEC America's Oregon Plant found this ut when orders for their air bag deployment circuit boards increased dramatically. How did they drive capacity to meet demand? ' completely automating the data collection system for quality control and part tracking on their production line. With the help of a stributed computing system using Microsoft® products. NEC's old system for verifying components on circuit boards was slow and quired significant manual intervention. The solution? A faster, more automated data collection and retrieval system built on a foundation Microsoft products, including Microsoft Windows NT™ Server, part of the BackOffice family. With the new system, verification time s decreased from 30 seconds to just two. This allows verifications to be performed automatically at multiple points along the production e, instead of only at the end. So rework is minimized. "We've achieved a 70 percent increase in our production line capacity," plains Judy Hawley, production manager at NEC America, "while maintaining the me level of quality." To get more information on how Microsoft can help u gain a business advantage using computers, call (800) 437-3119, Dept. GKP.

Microsoft

WHERE DO YOU WANT TO GO TODAY?™

Special Report

IT'S A SMALL (BUSINESS) WORLD

Now the little guys are going global. But even as the number of U.S. entrepreneurs venturing overseas climbs dramatically, dangers lurk

For 102 years, Bicknell Manufacturing Co. has made industrial drill bits for construction equipment at its modest plant in Rockland, Me. For most of that time, the family-owned concern thrived, with growth of about 8% a year in the late 1980s. Then came the 1990 recession. The construction market withered—and with it demand for Bicknell's products. As sales stalled, the company scrambled for new business. "We had to change course," says John E. Purcell, Bicknell's general manager.

With little likelihood of a quick turnaround at home, Bicknell set its sights on markets abroad. "There was much trepidation, with a capital T," says Purcell, 38, recalling that none of the 65 employees at the $4 million company had had any foreign experience. Still, with construction booms in Brazil, Colombia, and Mexico, the foreign market was beckoning. After Purcell found a distributor while visiting Mexico on a trade mission sponsored by the Small Business Administration, Bicknell began exporting to Latin America two years ago. And Purcell couldn't be more delighted with the results. He has just signed a deal to begin selling in China and Vietnam. This year, Purcell expects international sales to grow 20%, for 15% to 20% of the company's total revenue. "We're starting to see it pay off," he says.

Purcell's enthusiasm is just one case of a new global fever

BY ACKERBY

GLOBAL GUIDELINES FOR SMALL BUSINESS

LOOK TO EXISTING CUSTOMERS Many companies can penetrate foreign markets by selling products or services to their domestic customers' units overseas.

MAKE A COMMITMENT Exporting is not a part-time effort. It requires extensive research. Foreign business should be run by seasoned managers.

SEEK ADVICE Universities often have MBA students who work as consultants on exporting. Some consulting firms, such as Arthur Andersen, provide a free first-time consultation.

USE TRADE SHOWS Trade promotions sponsored by U.S. and state agencies abroad draw big crowds. Cost-conscious companies can send a product without attending.

PICK MARKETS CAREFULLY While potentially lucrative, fast-growing markets can tank unexpectedly. Consider customer quality, not just nationality.

MANAGE GROWTH It takes time to line up financing and expand an organization to handle exports. Many small exporters are overwhelmed by big orders.

USE LETTERS OF CREDIT Some first-time exporters ship a product and hope they get paid. A letter of credit protects against default by a weak or shady buyer.

BE PATIENT Many foreign customers do business based on relationships. Small companies must spend time cultivating contacts before racking up export orders.

CHOOSE PARTNERS CAREFULLY An experienced freight forwarder at home is crucial for handling customs paperwork. An inept distributor abroad can ruin a company's reputation.

to hit U.S. business. This time, instead of afflicting the goliaths of Corporate America, it's sweeping through the ranks of U.S. entrepreneurs. Whether they're seeking to escape sluggish markets at home or build on their successes, more small companies are looking beyond the local and regional markets that have long nurtured and sustained them.

A survey of almost 750 companies by Arthur Andersen & Co. and National Small Business United, a trade group, found that 20% of companies with fewer than 500 employees exported products and services last year. That's up from 16% in 1993 and 11% in 1992, the first year the survey was conducted. And many experts expect that the trend will continue as more and more small businesses plumb the potential of foreign markets. "It presents a huge growth opportunity," says David L. Birch, president of economic researcher Cognetics Inc.

The push abroad by a whole new stratum of U.S. companies is having a profound impact on the trade front. True, the $200,000 in foreign sales that Bicknell chalked up last year is nothing compared with Boeing Co.'s $11.4 billion in exports. But together, small companies are helping fuel an export explosion that has more than doubled total overseas sales since 1986, to $696 billion last year. While service sector exports are difficult to measure, DRI/McGraw-Hill figures that

"Everyone already has a dance partner [if you wait for stable markets]"

— ROBERT GIESE, RGdata Inc.

small businesses could account for 50.8% of the $548 billion worth of manufactured goods that the U.S. will likely export this year, up from 45.5% a decade ago.

Entrepreneurial success overseas is bound to produce other economic benefits. Bountiful markets abroad could insulate small companies from periodic downturns at home. And as it carves out more foreign business, small business could enhance its reputation as the job generator of the 1990s. "A lot of small businesses adding five or six people may not sound like much," says Donald T. Hilty, senior fellow at the Economic Strategy Institute in Washington. "But when you add it all up, there's real potential for job creation."

Tiny Lucerne Farms in Fort Fairfield, Me., is certainly doing its part on the job front. Thanks to the dollar's precipitous drop against major currencies in recent months, George A. James, president of the $350,000 horse-feed company, says his products are 25% cheaper in yen terms compared with a year ago. That drew an inquiry from a Japanese distributor. Now, orders from Japan could double his total revenue this year. To keep up with the flood of business, James is planning to take on five new employees on top of his current eight-person team. "Without this international business, we could never expect to grow as rapidly and add these jobs," he says. "This is a real shot in the arm."

Special Report

High-profile pacts such as the North American Free Trade Agreement and the General Agreement on Tariffs & Trade have also accelerated the march by small business into the global arena. Both agreements have gone a long way t ward lowering barriers to imports in foreign countries, whi alerting entrepreneurs to opportunities abroad.

Jeff A. Victor, for one, credits NAFTA for his surging expo volume. The general manager of $6 million Treatment Pro ucts Ltd., which makes car cleaners and waxes, had been tr ing to expand his small presence in Mexico since 1990. B stiff Mexican tariffs that ran as high as 20% made that impo sible for the Chicago-based company. Six months after NAF went into effect in January, 1993, and tariffs started gradua ly dropping, Victor says he landed contracts with almo every major retail chain in Mexico, including Futurama, C gante, and Soriana. His shipments to Mexico have tripled, roughly $300,000, about 20% of the company's total export Victor concedes that Mexico's financial meltdown has hu One retailer has put a big order on hold. But he's sticking out. To make his car wax more affordable to Mexican consu ers, he's considering selling it in smaller bottles. "After se ing in Mexico for five years, I'm not going to pack my ba and leave," he vows.

RISKY SHORES. The threat of a Mexican-style calamity other countries isn't the only thing that makes venturi abroad so risky and complicated. Lining up customers and d tributors—tough enough at home—becomes an enormo challenge when a market is a continent away. And th there's financing. Lenders are already leery of small comp nies. But the thought of a pint-size outfit venturing into u charted markets is enough to give some bankers the vapo

They have reason to be worried, because plenty of sm companies are innocents abroad. Many entrepreneurs g their first taste of global markets by filling stray foreign ders that come their way. Often generated by referrals chance meetings at domestic trade shows, these orders a quick and painless to fill—and can give the false impressi that exporting isn't so tough. "A lot of small businesses expo opportunistically," says Abby K. Shapiro, chairman of Int national Strategies Inc., a trade consulting firm. "The probl is not enough of them do it thoughtfully."

Lack of proper preparation can lead to costly mistak John P. Woolley, general manager of PC Industries, recalls h he shipped a $10,000 replacement computer component t French customer six months ago and was stunned when was billed $2,500 for value-added tax. Woolley's compa had to absorb the unexpected bill. He says such expensi lessons are causing his $3 million Glenview (Ill.) company rethink its overseas commitment. "The jury is still out on h strongly we'll pursue it," he says.

For small companies that decide to persevere with their port strategies, identifying suitable markets is generally the fi step. Many turn to federal and state agencies for market inf mation (page 101). The U.S. Commerce Dept., for instance, h a trade database available through its 73 field offices and pu lic libraries. The database has research reports on 117 industr in 228 countries.

It's a good starting point for figuring out what's hot and what's not. Right now, environmental companies—those specializing in everything from waste-water treatment gear to landfill management—are finding opportunities in the newly industrialized markets of South Korea, Indonesia, Malaysia, and Taiwan. And in Latin America, a growing middle class is fueling

Small Compar Go Global.

*COMPANIES WITH FEWER THAN 500 EMPL

"I'm not going to pack my bags and leave [Mexico]"

— JEFF VICTOR, Treatment Products Inc.

ıew wave of health consciousness. Companies making cho-
terol-testing equipment, for instance, may find eager cus-
ners in Brazil and Mexico.

Some entrepreneurs display a lot of ingenuity when scop-
out markets. Harden H. Wiedemann, chairman of Assur-
e Medical Inc., a $2 million Dallas company that sells alco-
- and drug-testing services, uses the Internet. He says he
found voluminous online information on the growing con-
n with alcohol-related problems in Argentina. "Some of the
t information we found we just stumbled on as we were
fing around," he says.

THER AFIELD. Not surprisingly, most first-time exporters
d north of the border. With few language barriers, a
ilar business culture, and now NAFTA, Canada is the most
ealing market for small companies. But entrepreneurs,
boldened by past trade triumphs or tempted by flour-
ng markets, are setting their sights on more distant
es. Fully 12% of those responding to the Arthur Ander-
/Small Business United survey say they exported to
stern Europe in 1994, while 11% targeted fast-growing
kets in the Asia-Pacific region.

Heather Stone has certainly expanded her horizons. Last year, she began selling her invention—a scooter for people with leg or foot injuries—to a distributor in Canada. Then last fall, Stone was invited by the Japan External Trade Organization to display her product, called Roller-Aid, at a Japanese trade show. She now expects her company, StoneHeart Inc. in Cheney, Wash., to start shipping to Japan this summer. She figures exports will generate about 20% of her company's $500,000 in sales this year. "This international business just kind of fell in my lap," she says with a smile. "For me, it wasn't as difficult as I expected."

Chasing emerging markets requires something many entrepreneurs already have: a stomach for risk. Like his counterparts at much bigger companies, Robert A. Giese of RGdata Inc. was quick to set his sights on untapped markets in the then-Soviet Union—as early as 1989. The Rochester (N. Y.) computer-networking company that he founded in 1974 hadn't done any serious exporting. But he felt the opportunities in Russia and nearby countries were overwhelming. True, shipping was a nightmare, and phone communication was in the dark ages. But he says waiting until a market is stable makes no sense: "By then, everyone already has a dance partner." In 1989, he teamed up with three other small companies to pay for a $25,000 booth at a Commerce Dept.-sponsored trade show in Moscow. Last year, 20% of his $19 million in business came from former Soviet countries.

Some entrepreneurs have turned themselves into globe-trotting promoters to drum up business. Katherine Allen, who with her mother runs Allen Filters Inc., figures she spends almost a third of her time abroad, schmoozing with potential customers for her oil-cleanup products and services. Allen reckons that, of her yearly $4 million in sales, half comes from exports, thanks to her network of contacts from Singapore to São Paulo. And now—two years and numerous cocktail parties after

"I think the world is open to most small businesses"

— KATHERINE ALLEN, Allen Filters Inc.

TOP TO BOTTOM: PHOTOGRAPHS BY BLACK-TOBY, MARK KATZMAN

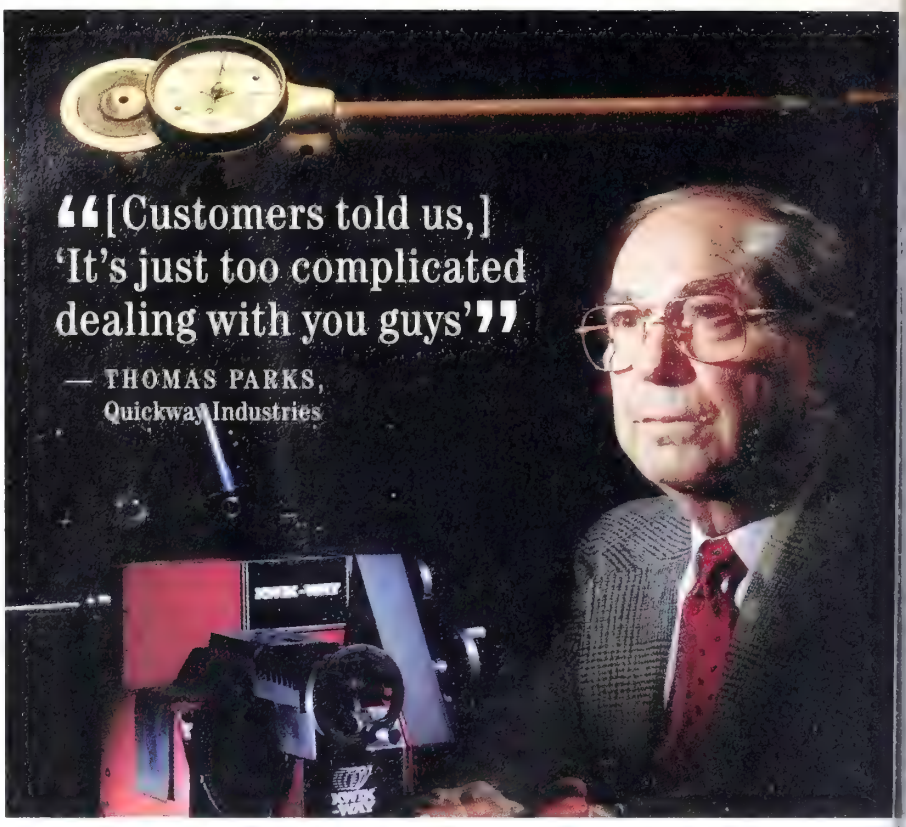
nd Take The
Export Lead

JR ANDERSEN ENTERPRISE GROUP, NATIONAL
SS UNITED, DRI/McGRAW-HILL, BUSINESS WEEK

her first visit to Beijing—she has potential customers in China. Allen Filters may not have the marquee value of big U.S. exporters, but Allen says

her journeys have convinced her that a small company can make it if it understands markets and customers. "If they have a good foundation, I think the world is open to most small businesses," she says.

For the typical small company, however, a foreign partner or distributor is the only access to a new market. It's a crucial relationship. Lazy distributors won't do much for business, while inept or unsavory ones can ruin a small company's reputation in a new market. Two years ago, computer maker WIN Laboratories Ltd. in Manassas, Va., pulled out of a joint venture in Chile, blaming its Chilean partner for customs delays and weak sales. "It hasn't soured the outlook on exporting here," says Mark H. Magnussen, WIN's director of business development, who is considering joint ventures in Brazil and Mexico. "But in the future, we'll do a lot more legwork."



FISH STORY. Such research doesn't have to mean frequent trips to far-flung ports of call. One gold mine of information: U.S. companies that sell related products. Fred Hansen, vice-president for marketing at Mardel Laboratories Inc. in Glendale Heights, Ill., which makes water conditioners and other supplies for tropical-fish aquariums, hired a distributor in Hong Kong after contacting Penn Plax Plastics Inc., a Garden City (N.Y.) company that sells plastic underwater plants. The company didn't compete with Mardel, but it knew both the distributor and the industry well.

Small companies with bigger budgets can participate in trade shows sponsored by state and federal agencies. The Commerce Dept.'s Gold Key program, for example, can arrange for a small-business executive to meet with prescreened potential partners in a foreign country. Jim DeCarlo, president of Phenix Technologies, based in Accident, Md., met his Spanish distributor on such a jaunt. He spent three days in Madrid in 1993, meeting with potential partners at the U.S. embassy. The trip cost the company, which makes electrical testing equipment, roughly $3,500—a wise investment, says DeCarlo. "I wouldn't have known where to start" to look for a partner, he concedes.

Like their bigger brethren, some small businesses are establishing overseas arms. Eli E. Hertz, founder of Hertz Computer Corp. in New York, bought a small distributor in Israel in 1990 to sell his equipment. He says being nearby to handle his clients' servicing needs gives him an edge over rival exporters. Today, Israeli customers account for 25% of his $10 million in sales. "Being there is a huge advantage," Hertz says. His customers agree. "When they get a call, they're here in four hours," says Shlomo Stern, the head f systems operations for OFEK Securities & Investments Lt

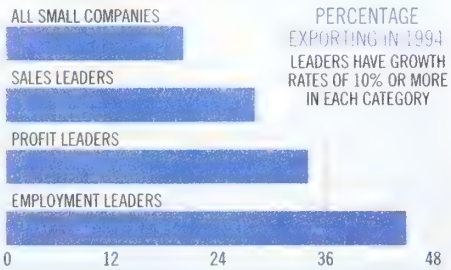
Whatever their strategy for penetrating foreign marke small companies inevitably find that lining up trade financing pay for manufacturing or to extend credit to customers is t stiffest challenge of all. Many U.S. banks abandoned trade nancing in the 1980s after the Latin American loan debac Even banks thought to be entrepreneur-friendly shy aw from tiny, complex, labor-intensive trade finance deals. Jean A. Hulit, vice-president for international banking at Key Ba of Maine, a unit of KeyCorp, says one recent small tra loan—less than $100,000—took so much time and energy th she might require an up-front fee from exporters in the futu "It was way too much work for a small loan," says Hulit.

Some small companies have benefited from trade fina programs sponsored by government agencies. Phenix Te nologies' DeCarlo recently lined up a $400,000 revolving cr it for his export business with the help of a guarantee fr the Maryland Industrial Development Financing Author But such programs are poorly funded. Though the the Sm Business Administration and the E port-Import Bank have doubled te size of their financing programs sin 1991, together they guaranteed o $253 million in export-related le ing for small businesses in 1994.

And entrepreneurs still compl about excessive paperwork. Last fl Thomas Parks, chairman of $23 r lion Quickway Industries, applied r a line of credit backed by the Ex Bank to boost his company's auto m chine-tool exports. The bank wan to see audited financial stateme for the past three years from Parl's customers. When Quickway asked x big foreign customers for such do ments, all but one flatly refus

Successful Entrepreneurs Look Abroad

Fast-growing small businesses are more likely to be exporting



DATA: ARTHUR ANDERSEN ENTERPRISE GROUP, NATIONAL SMALL BUSINESS UNITED

rks says. "They said: 'It's just too complicated dealing th you guys,'" he recalls. In the end, Parks continued to aw on his company's own limited cash flow to finance his ex-rt expansion. But he says he hasn't grown nearly as fast as had hoped.

Unfortunately for small companies, there's plenty more d tape awaiting them overseas. Foreign governments im-se standards for imported goods that are often intended as rriers to imports. The Commerce Dept. figures that for the pical U.S. machine manufacturer, the cost of additional perwork and certification can add up to $100,000 a year. at's a big bite for any company and potentially crushing for small one. On top of that, importers often insist that suppli-s meet guidelines set by the International Organization for Standardization. The group, representing 91 countries, sets quality measures on manufacturing procedures, design, and servicing. Many small companies find the certification too costly and time-consuming.

Of course, no one said that exploring exotic markets would be easy. It never has been—neither for caravan drivers plying the Silk Road nor for sailors seeking the Spice Islands. But like them, today's entrepreneurs know that playing it safe by staying at home may be the riskiest strategy of all.

By Amy Barrett in Washington

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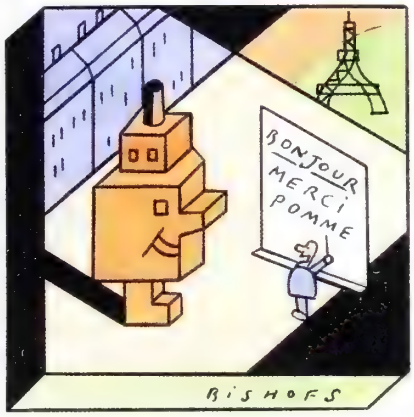
WANT TO GO GLOBAL? HERE'S WHERE TO FIND HELP

At one time or another, many small businesses have toyed with the idea of going global. But just understanding the paperwork and bureaucracy associated with exporting can be daunting. Information is hard enough to come by. Even though the Commerce Dept. is more supportive of small business these days, it's still widely viewed as an advocate of big companies. And many entrepreneurs have given up in sheer frustration. Joel Krieger, head of marketing for Taub Floor Coverings Inc., a $3 million company based in Staten Island, N.Y., put his global plans on hold three years ago when he realized he didn't have the time or the staff to devote to coping with the complexity of foreign markets. "Just gathering the information available was staggering," he recalls.

Yet for small businesses willing to do their homework, there are a number of excellent resources to help them get started. They are relatively low-cost services; many are free of charge. In the long run, the guidance these services offer can speed up a new exporter's entry into foreign markets while helping to sidestep many of the most common—and costly—blunders. Here are just a few places to go when developing an export strategy:

■ COMMERCE DEPT. HOT LINE A good starting point. Specialists can provide details on different federal programs that will help new exporters tap foreign markets, as well as general information on state export promotion programs. The Commerce Dept. can also offer guide sheets on a number of tricky exporting problems, including how to handle the paperwork required to qualify for



the low tariffs under NAFTA. Consultations and information are free. Call 800 USA-TRADE.

■ EXPORT OPPORTUNITY HOT LINE Run by the Small Business Foundation of America, a nonprofit organization based in Washington. Calls are handled by trade experts. Tips include how to find a foreign distributor and cheap ways to test-market a product overseas. Companies that are exporting for the first time can also get advice on how to research potential markets. And exporters who have hit snags can get help in solving their problems. No charge. Call 800 243-7232. In Washington, call 202 223-1104

■ SERVICE CORPS OF RETIRED EXECUTIVES Working in conjunction with the Small Business Administration, SCORE serves to match up small businesses with mentors who have experience in foreign trade—at no cost. These volunteer business veterans can assist new or troubled exporters in putting together a strategy for succeeding abroad. SCORE has 370 chapters throughout all 50 states and roughly 500 seasoned exporting counselors. Call 800 634-0245.

■ ACCESS TO EXPORT CAPITAL The AXCAP program is run by the Bankers' Association for Foreign Trade, a trade group. Small exporters who don't know where to go for financing can contact AXCAP specialists. Searching their national database, the group provides a small business with a list—usually within 24 hours—of banks in its area that handle various types of transactions. The searches are all free. Call 800 49AXCAP.

■ EXPORT LEGAL ASSISTANCE NETWORK Like it or not, small exporters will probably need a good attorney. A lawyer with experience in foreign trade can give new exporters advice on everything from protecting patents and trademarks to drafting contracts with new partners. This network provides free referrals to local attorneys with trade experience who provide one free counseling session for new exporters. Contact either the Commerce Dept. hot line or Judd L. Kessler, the national coordinator for the network, at the law firm of Porter, Wright, Morris & Arthur in Washington. Call 202 778-3000.

■ AMERICAN SOCIETY FOR QUALITY CONTROL This not-for-profit trade association offers free advice to companies that want to meet manufacturing standards set by the International Organization for Standardization, a group representing 91 countries. While the standards are fairly general, companies hoping to win substantial overseas business may have to adjust their operations to pass a certification test conducted by an accredited examiner. The society can also put callers in touch with other companies that have already gone through the process. Call 800 248-1946.

ADVERTISING

BURMA SHAVE SIGNS ON THE I-WAY

Travelers on the Net are finding ads with a twist

The market Van den Bergh Foods would like to reach with its line of Ragu sauces probably includes a lot of people who think the World Wide Web is an international crime ring. Even so, the Unilever unit's spaghetti-sauce-in-a-jar has now pitched its tent on the vast computer network that is just beginning to attract nontechie users. It's not alone. Burlington Coat Factory Warehouse Corp. is on the Web. So are MCI Communications, Reebok International, and Coors' clear, beer-like drink, Zima.

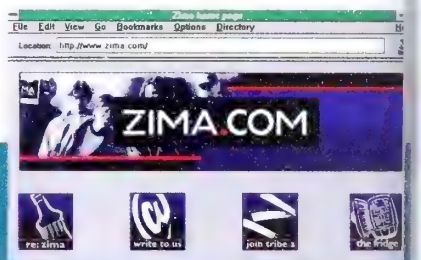
Mass marketing this isn't. While 34 million people watch *Seinfeld* every week, only about 2 million cruise the Web. But that small group has irresistible demographics: mostly young, male, college-educated, and affluent. And with the major online services poised to offer Internet access and Microsoft Corp. promising to blanket the landscape with easy-to-use Web browsers in its long-promised Windows update, that audience is sure to grow fast. The number of commercial Web sites, now pegged at about 3,000, is growing exponentially. Most are for business products and services, but in the last six months mass marketers fearful of being left behind have been rushing to build a presence in cyberspace.

TERRA INCOGNITA. While most commercial sites offer lots of product information, the new advertisers offer menus that range from product information to games to bulletin boards. Users move from page to page, or sometimes site to site, by clicking on highlighted text or graphics.

This is terra incognita for advertisers and consumers alike. It's unclear whether consumers will put up with marketing messages on the Web, where it can take minutes to move from page to page. And even if droves of potential customers arrive, there's no way to ensure they'll find their way to a particular outpost or, more important, spend much time there. The old rules are turned upside down: In this wonderland, the consumer is in control and must actively seek out the message.

So why would anyone click on a spaghetti-sauce commercial? "You have to provide information that's useful, and you have to keep updating it in order to get repeat visitors," says William Gentner, vice-president for marketing at Van den Bergh. A little entertainment and a few freebies help, too. Ragu's "Mama's Cucina" site offers Italian phrases, recipes, and a sweepstakes. Thousands of We surfers have clicked on the site since went up last month. Remarkably, co sidering the overwhelmingly male We population, half have been women.

JOINING "TRIBE Z." Most marketers don actually sell products on the Web: Th capability to offer widespread onli transactions is at least 18 months awa And advertisers have quickly grasp that consumers are unlikely to wa through an electronic brochure on be or sneakers or return to a site that ne er changes. With sales and straig product information out, that leaves e tertainment and service. "People do want overt advertising on the Intern



Virtual Marketers
Advertisers on the World Wide Web

ADVERTISER	WHAT THEY OFFER
BURLINGTON COAT FACTORY	Product info, coupons, store locator
MCI BUSINESS MARKETS	Interactive story about fictional Gramercy Pres
MILLER GENUINE DRAFT	Virtual tap room, with sports, regional news
RAGU	Italian lessons, sweepstakes, coupons, recipes
REEBOK	Sports tips and human rights news
ZIMA	Ongoing soap opera, product news, games

WEB GIMMICKS: *Reebok offers sports interviews, while Zima tries to give its drink a cult-like aura*

and that's something that has to be r cognized," says James Taylor, brand rector for Miller Genuine Draft.

Miller Brewing Co.'s virtual tap roo up since October, is one of the earli consumer-products sites. Visitors th won't see any billboards for Mille suds, though there is a page called "A the Brew Master," for E-mail interact with the brewer. Updated monthly, site carries offbeat regional news sto and items on sports Miller sponso such as race-car driving. Striving fo similar audience, Reebok offers colo graphics and athlete interviews.

Adolph Coors Co. uses its Web site imbue its Zima malt drink with a c like aura, inviting visitors to join "Tr Z" to receive T-shirts and caps, a

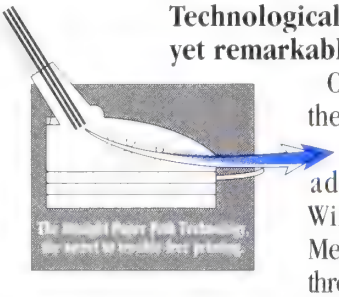
Consumer sites need entertainment and services becaus "people don't want overt advertising on the Internet"

Who would have believed you could buy a Laser Printer for only $399?

We Did.

Introducing the Brother HL-600 Series Laser Printers, with exclusive Straight Paper Path Technology that sets a new standard in quality and value.

If your next laser printer doesn't have our exclusive Straight Paper Path Technology, that may put a wrinkle in many of your printing projects.



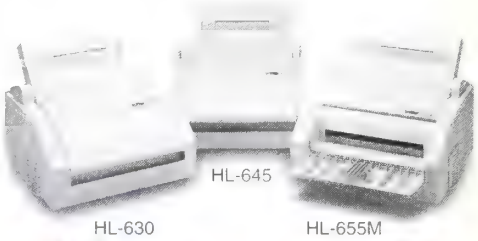
That's because our laser printers don't take your paper down a curvy, twisty paper path like other laser printers. So everything comes out straighter and faster (up to a blazing 6 pages per minute). You'll be able to automatically stack and feed those troublesome envelopes (up to 10 at a time), and paper sizes as small as 2.75" X 5" without having to worry about how they'll look when they come out. You can print not only standard paper stocks, but also tri-fold brochures, invitations, newsletters, etc. It's like having your own personal print shop!

AVAILABLE AT: Office Depot, OfficeMax, Staples, Circuit City, Fry's, Best Buy, J & R Music World and fine retailers and dealers everywhere

Versatility is just the beginning because our Straight Paper Path Technology virtually eliminates those horrifying paper jam glitches that usually force you to disassemble your laser printer.

Technologically remarkable... yet remarkably affordable.

Our HL-600 Series Laser Printers, the first in a new family of quality printers, also offers other advanced features like fast Windows™ printing, Enhanced Memory Management to help you fly through large complex files, numerous fonts, auto power save mode to save energy costs, microfine toner, optional Macintosh® compatibility, and more. Yet, unlike other laser printers with similar high-end features, our new laser printers don't come with a high-end price tag. They start at $399. (Yes, laser for $399!)



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running a serialized story featuring Zima-loving characters. The hip tone and emphasis on entertainment mask a carefully crafted marketing tool. Like most Web marketers, Coors collects names and addresses for its database and also conducts E-mail surveys and online focus groups to test, for example, TV viewing habits. "If it were just providing a good time, we wouldn't be there," says Zima Brand Manager Mark Lee. He says the cutting-edge Web culture is perfect for a beverage that defies categorization. To herd people to its site, Zima prints its Web address on bottles and buys electronic "billboards" at other popular Web sites. *HotWired*, the online cousin of *Wired* magazine, for example, sells four-week ad slots for $15,000 a shot and has attracted Zima, MCI, and Stolichnaya vodka, among others.

With the explosive growth of new sites, the look and feel of the Web will probably be as different in a few years as today's computer games are from their Stone Age ancestor, Pong. In fact, computer games may be a model for future Web marketers. MCI Business Markets' "Gramercy Press" Web site is structured like a computer game, with each page leading to myriad other pages. All deal with the characters in MCI's ongoing TV campaign revolving around a fictional publishing house. As they move through the Web site, visitors can use simulations of the services MCI is trying to sell, such as information retrieval and E-mail.

GAME PLAYERS. Some marketing experts question whether people who have time to play computer games are likely to make business purchases. Still, MCI says the site has drawn more than 1 million visitors since going up in October and has generated significant sales inquiries.

Most observers think marketing on the Web will ultimately take a much different form. Today's games and giveaways are "really a short-term phenomenon," says Mary A. Modahl of Forrester Research Inc. She believes that in the next 12 to 18 months, as software for ensuring secure transactions appears, a huge new online marketplace will open up in which the cost of presenting goods will be a fraction of presenting them in a store or catalog. Consumers will search out Web sites that offer bargain prices for everything from snacks to clothing.

In the meantime, if the size of the cybermarket isn't overwhelming, neither is the cost. A decent site, at which visitors might linger for five minutes or longer and to which they might return over and over, can be built for less than $150,000. Compare that with $500,000 for a single 30-second spot on *Seinfeld*, and experimenting on the Web doesn't look like such a bad bet.

—Mary Kuntz in New York

COMPUTERS

THE SNITCH IN THE SYSTEM

Old data are showing up in court—and winning cases

Vermont Microsystems Inc. (VMI) is no corporate Sam Spade. But the high-tech company, based in Winooski, Vt., is pretty good at playing detective. Consider how the company got a judge to award it $25.5 million in December in a trade-secrets action VMI brought against Autodesk Inc. VMI didn't rely on the typical eyewitness or incriminating memo to beat the Sausalito (Calif.)-based software developer. Instead, VMI crafted its case out of bits and bytes.

VMI argued that electronic messages, for instance, showed that Autodesk management had reason to suspect that a program developed by an ex-VMI engineer who had joined Autodesk was similar to one he had created for VMI. On Autodesk computers, VMI says it turned up the same names VMI chose to label internal directories used in product development. Perhaps most damaging of all, VMI found evidence that certain files had been permanently deleted from the engineer's computers. "There's no question in my mind that the E-mail and evidence that files had been wiped convinced the judge that there had been hanky-panky," says VMI's lawyer, Robert D. Rachlin.

Autodesk has appealed the judgment and argues that the electronic information was misused by the plaintiffs and misunderstood by the judge. "A lot of technical jargon was used to imply that something improper had been done," says Autodesk's defense counsel, D. Bruce Sewell. "We think the judge made a lot of errors."

TICKING TAPE. Still, Autodesk got stung by what's fast becoming the newest, most potent weapon in litigation. While the technology revolution has been a boon to corporations for years, it's only now beginning to show the costly damage it can also do. More and more, jilted employees, angry business rivals, and injured consumers are waging legal wars with floppy disks and hard drives.

And they're winning. That's because most companies have lost control over the voluminous data they can now ge erate and then store on tapes that into the palm of a hand. One 8mm ta can hold as much as 1,500 banker's bo es of information. "Every single co pany that has a computer will in t next five years be impacted by the u of electronic data in litigation," sa John H. Jessen, the managing direct of Electronic Evidence Discovery Inc. Seattle. "The boogeyman is coming."

Companies simply haven't figured o yet how to manage electronic data t way they manage more conventional p perwork. Paper is either filed system

Legal Perils On the C:Drive

THE SMOKING GUN Electronic messages and voice mail, candid relatively casual forms of corpora communication, increasingly are providing the most incriminating evidence used against companie in litigation.

CORPORATE PACK RATS Usin disks and tapes to store informa has enabled companies to save virtually all data they generate. T result is costly searches for information requested in litigati

LOSS OF CONFIDENTIALITY S tive company material is easily duplicated and transmitted via c puter, opening the door to the lo trade secrets, proprietary techno and other damaging business da

COPYRIGHT VIOLATIONS Emp ees who download unauthorized material from the Internet or mi propriate software may expose companies to charges of copyrig violations or other wrongdoing.

lly or shredded when deemed worth-
ss. But electronic information is orga-
zed according to each user's personal
stem and deleted only when that indi-
dual chooses to do so. Even when files
e deleted, savvy computer experts
n often re-create the erased material.
is means that everything from birth-
y greetings sent from one worker to
other to coveted smoking-gun-type
cuments are being preserved by com-
nies as never before. "It's like having
video everything that happened in a
mpany," says Michael J. Patrick, a
mputer-evidence expert at a Palo Alto
alif.) law firm, Fenwick & West.

Plaintiffs' lawyers have already
edged to go after a broad array of
ectronic evidence in cases such as the
assive class action brought against the
bacco industry. But so far, they have
pitalized most on the candid, unfil-
red nature of intra-office E-mail. Mes-
ges such as "this is highly illegal, but
's do it anyway" and "please destroy
idence" have already turned up in lit-
ation, forcing companies to settle cas-
that they might have once contested.
These kinds of damning notes will
ly proliferate. By next year, more
an 35 million people are expected to
nmunicate via E-mail, up from 18

Deleted files can be retrieved years later from seemingly bottomless archives

million in 1994, estimates Yankee Group Inc., a market research firm in Boston. "If you find one message that supports your case, even if written as a joke, it can be worth $500,000," says Joan E. Feldman, president of Seattle-based Computer Forensics Inc.

LOOSE LIPS. Chevron Corp., while denying the charges, paid $2.2 million in February to settle a sexual harassment case brought against it by four women. The plaintiffs claimed, among other things, that they were subjected to offensive electronic messages, including one listing 25 reasons why beer is better than women. One example: "Beer doesn't demand equality."

Off-the-cuff electronic remarks can also sour business deals. Siemens Solar Industries is suing Arco for fraud in connection with Siemens' 1990 purchase of an Arco solar energy subsidiary. The lawsuit refers to more than 10 electronic messages sent prior to the acquisition that allegedly reveal the shortcomings of the subsidiary's main solar energy product. One note reads: "As it appears that TFS [thin film silicon] is a pipe dream, let Siemens have the pipe," according to the suit. Arco says the messages were taken out of context and that it "will show that Siemens was fully informed about the technology it was buying."

That such potentially incriminating comments would be preserved years after they were made suggests that companies don't know what's in their information systems. Such ignorance creates expensive problems for businesses when they must unearth information requested in litigation. Jessen of Electronic Evidence Discovery says one of his corporate clients embroiled in a massive product-liability dispute has spent more than $2 million looking through electronic evidence and is only 10% of the way through the search.

Intuit Inc. has had its share of headaches responding to a 76-page request for data stemming from the Justice Dept.'s analysis of the company's merger with Microsoft Corp. Patrick, Intuit's counsel, says the company went through approximately 200 hard disks, each containing about 300 megabytes of data—the equivalent of up to 15 million pages of text. And that was before Intuit even got to some 80,000 electronic messages.

"Ninety-eight percent of the documents that companies keep don't need to be kept," says Eric Bochner, another lawyer for Intuit. "But there is never a spring cleaning day at the office."

HISTORIC PHONE CALL. Some companies are changing their pack-rat ways. Toyota Motor Sales USA Inc. hopes to have a new policy concerning its computer information in place by the end of the year. And Univar Corp. recently underwent an electronic-data audit of sorts. The company came to realize that a number of its employees were saving voice mails indefinitely. One woman had kept her two-year-old grandson's first telephone call. "It's very sweet, but you don't want employees to have that much discretion," says Feldman, who performed the review.

Of course, companies shouldn't be allowed to deep-six evidence of wrongdoing, either. Over time, gaining control over their information can only help companies fend off litigation. But for the moment, they're spending more time in court than they are preventing future electronic nightmares. "This is plaintiffs' heaven," says Patrick. And that's a place no company wants to visit.

By Linda Himelstein in New York

EDITED BY AMY DUNKIN

TAKING CARE OF BUSINESS–WITHOUT LEAVING THE HOUSE

After 3½ years of working for a public-television station in Dallas while her husband ran a vineyard in California's Napa Valley, Pat Perini could no longer stand the separation. So she cut a deal with her employer: She would move to Northern California and continue to work as an executive producer out of her house. "You can live almost anywhere with a phone, fax, modem, and Federal Express," says Perini, who has since become an independent film producer.

Perini exemplifies a familiar trend: More people are making a living by working out of a home office. According to Link Resources, a New York market-research firm, 37 million U.S. households—38% of the total—contain at least one person doing income-generating work at home. Although many are self-employed, the 8.4 million telecommuters—corporate individuals working part- or full-time at home during business hours—represent the fastest-growing segment.

WEB TAMERS. If home is where the job is, technology is helping it become more so by letting people tackle increasingly complex work chores. Computers, software, and other electronic gear are dropping in price even as they get more powerful and versatile. Consider multifunction devices that combine printing, faxing, scanning, and copying in one machine. A compact color portable such as Canon's sleek new BJC-70 can handle your printing needs and then be stored in a closet. Standards are being developed so that you can share digital voice and data simultaneously over a single telephone line.

WORKING FROM HOME

The use of Internet electronic mail is also becoming commonplace, and small businesses are just learning to tame the World Wide Web by putting marketing or advertising information on Web pages. "What's critical," says Dana Simmons, a managing director at technology-research firm Find/SVP, "are better and better information services—knowing instantaneously where my FedEx package is [via modem] or finding out who's calling me with caller ID."

For his part, Simmons turned a spare bedroom in his Santa Barbara (Calif.) home into a fully equipped office, with a Macintosh computer, two phone lines, a fax, laser printer, and a relatively simple, inexpensive video hookup that lets him hold teleconferences from his office. Amazingly, he is using a regular phone line and modem, a $100 camera, Cornell CU-See Me software (downloaded off the Internet for free), and a 14,400 bits-per-second modem. Simmons also set up his own computer site on the Net, and he uses GTE voice-mail service and an 800 number from AT&T.

Environmental, political and economic pressures also help explain the rise in home offices. Many of the workers jettisoned during corporate restructurings chose to venture out on their own. And companies nationwide are seeking ways to respond to Clean Air Act provisions to reduce the number of cars on the road. In high-traffic areas such as Southern California, companies are fined if a certain number of employees do

ILLUSTRATIONS BY MARGARET RIEGEL

pool, use public transtation—or work from me. Partly as a result, mans are becoming more flex- about letting some of the ops work away from the ce, at least occasionally.

Again, technology is help- pave the way. The boss l probably become even re lenient if and when h-speed integrated services ital network phone lines l videoconferencing become vasive—that way, she can p an eye on you. At pre- t. Intel's ProShare videoferencing kit—containing a nera, video cards, microne, and earphone—costs und $999 per site, provided simultaneously sign on for N service from your local ne company. The video im- is still jerky, but people catch the helpful visual s that are absent in a reg- phone call.

INDARIES. Whatever techogy is in place, the inised flexibility of working ome often boosts producy. Telecommuters may use time they would otherspend traveling on work es. Moreover, those withkids who resist the tempon to flip on the O. J. trial lo laundry probably face er distractions at home n they might in an office l with superfluous meetand hallway schmoozing. M. Nilles, president of JALA International conng firm in Los Angeles, author of *Making commuting Happen* .95, Van Nostrand Rein-), estimates that a person king one to two days a k at home can save a pany $6,000 to $12,000 a because of hikes in proivity, reduced office space, lower turnover.

hose who set up shop at e must think about more electronic gear. As with ork space on company your home office should well-lit room with comble, ergonomic furniture. never possible, it should tuated in a garage, attic, olated part of the house.

Telecommuters can feel isolated—and colleagues in the office may resent them

If you're telecommuting, you may have to haggle with your employer over equipment. Don't be surprised if you strike out. Tom Miller, a vice-president at Find/SVP, says about 80% of home-office gear is paid for by individuals, not companies. "You buy a car to get to work," he says. "You buy a computer to work from home."

Those who work at home also need self-discipline. The 9-to-5 routine no longer means as much, but it helps to focus on the tasks at hand—and to know when to call it quits for the day. With home PCs, remote access to computer networks, and E-mail, you can pretty much work around the clock. "The most difficult thing is having a sense of boundary and cutting it off," says Perini, the TV and film producer, who nonetheless likes the convenience of walking into her office on a Saturday without getting into a car.

And home work has other downsides. If you like being around other people, you could have trouble adjusting to the isolation. Some home workers join a networking group, invite others to visit them, or communicate online in, say, CompuServe's Working From Home forum. But you may miss out on the kind of spontaneous brainstorms that erupt when you're chatting up co-workers by the water cooler.

Full-time telecommuters may also face real career anxieties. What if being out of sight also means out of mind, allowing you to get passed over for a promotion or bonus? The danger: You could overcompensate and turn into a workaholic. Telecommuters may feel left out of the loop on official company business—or office gossip. And colleagues sometimes resent them, especially if, during office emergencies, the visible bodies are the ones always called upon to put out fires.

To quash these concerns, experts advise telecommuters to visit headquarters as often as possible. Poking your head into the offices of superiors and cohorts never hurts, nor does picking up the phone or sending regular "what's going on?" E-mail queries.

KID CARES. At times, you may need to drop in on a real office, to entertain clients or take advantage of audio-visual equipment. You might want to rent a conference room at a nearby hotel or share office space with other professionals in your area. But again, technology can come to the rescue. You can make a strong marketing pitch to clients with no more than a color laptop PC and software packages such as Microsoft PowerPoint or Lotus Freelance Graphics.

A key benefit of working at home is the chance to be close to your family. But it's a decidedly mixed blessing. Experts advise home workers to set ground rules with the rest of the clan. Paul and Sarah Edwards, authors of *Working From Home* ($15.95, G. P. Putnam's Sons), recommend "child-proofing" your office rather than "office-proofing" your children—that is, let the kids be kids. Some parents keep the home office off-limits even after business hours. Others design their workday around the child's schedule. Working at home is no substitute for child care, however. You can't hold a baby in one hand and pound away on a keyboard with the other.

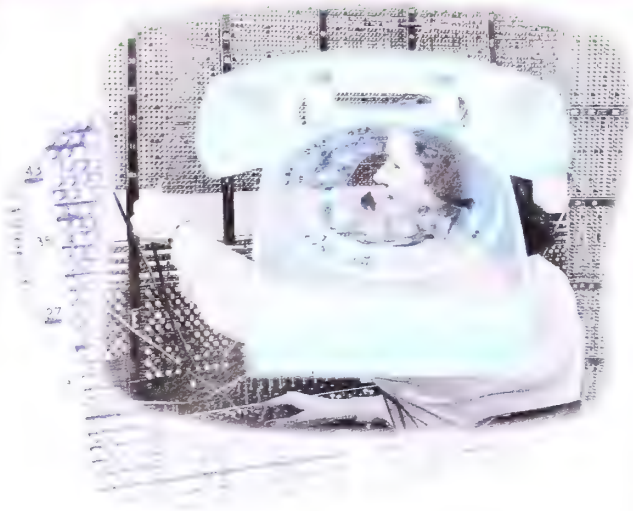
At some point, your business may grow to the point where it no longer makes sense to work at home. One solution would be to rent an office nearby. Or perhaps you could turn some of your profits into an addition on your house or a larger home. Once you get a taste of commuting down the hall in your slippers, you might decide that, when it comes to working, there's no place like home. *Edward Baig*

Keeping Your Home and Office Separate

Home is home. Work is work. Even though you work at home, it's important to maintain that distinction.

1. Clearly demarcate your work space by using a separate room or partition.
2. Set definite work hours.
3. Have a signal that makes it clear when you don't want to be disturbed.
4. Set boundaries. Learn to say, "No, I'm working now."
5. Maintain a separate business phone line and use an answering machine or service.
6. Dress in a particular way when you are working, though you need not put on a suit and tie or heels.
7. Organize your office to keep work materials, paper, and equipment in clearly defined office spaces.
8. If possible, have a separate outside entrance.

DATA *WORKING FROM HOME* BY PAUL AND SARAH EDWARDS



PHONES THAT DO IT ALL—EXCEPT MAKE COFFEE

So you've decided to get out of the corporate rat race and start your own business at home. But you're used to all those wonderful support services back at headquarters—receptionists, voice mail, fax machines scattered about, conference calls. And although you may want to scrap the daily commute, you're not keen about customers and suppliers thinking you're some fly-by-night operation run out of the back bedroom.

Well, the good news is it's easy to create the illusion that a one-person, home-based operation is a much larger company. And you don't have to shell out thousands of dollars on integrated personal computer/telephones and sophisticated telecommunications equipment. In most regions of the U. S., home workers can get office-like phone services for an additional $10 to $12 a month from the local phone company.

You may already subscribe to one or two—call waiting or voice messaging, for example. But, say phone company marketers, it doesn't take long for home-office users to realize they could be much more efficient with a few more, such as call forwarding, caller identification, three-way calling, and call blocking.

WORKING FROM HOME

Even the most popular services can be embellished for business use. Take voice messaging. Most subscribers use this at-home version of the voice-mail service found in large offices as an answering-machine substitute. But in almost every state you can add features that will forward a message to your beeper, allow you to set up several mailboxes for other family members or coworkers, or send a message to another number to be delivered at a future date. Pacific Bell is testing a Daily Reporter service that gives voice-message subscribers information on more than 100 topics, such as the latest news from Washington and Wall Street, while Bell Atlantic just introduced a feature in Montgomery County, Md., that allows users to broadcast a message to every other subscriber in the county.

Once you've got a fancy voice-message service, you might want to think about caller ID. Available in every state except California, it displays the phone numb of an incoming call on screen located on the pho or an attached comput monitor. Caller ID rat range from $4 to $7.50 month, but to use it y must invest at least $50 in phone with an LCD scree Also, it has generally n worked for lon distance cal but as of th month, a Federal Commu cations Commission rulin requires long-distance car ers to start passing calli information to the lo phone companies.

As consulting group B Strategic Decisions note caller ID combined with a and special software "can low for a variety of neve before-imagined capabiliti and benefits." For examp your PC can be programm so that a file on regular c tomers pops up before t call is answered. U S We can combine call waitir caller ID, and voice messa ing: When you hear the ca waiting tone, you can ident the call and either take it forward it to voice mail.

MORE LINES. Once you've g all these services, you probably going to need ext phone lines, especially if y are running a fax and ser ing data out from your co puter. At that point y might want to install an in grated services digital n work line. An ISDN line is sentially three high-spe digital phone lines rolled i one, allowing you to simul neously send and recei voice calls, faxes, and co puter data, all at much hig speeds than a standard a log phone line. The cost ISDN installation is hig from $80 to $250, depend on the provider—but t monthly charge is usua about the same as two st dard phone lines.

Besides, by adding IS and the like, you might st feeling like you've got all advantages of the corpor setting again—without t rat race. *Catherine Ar*

Who Needs a Receptionist?

There are plenty of local phone company services that can make the plain-vanilla handset at your home-based business work like a corporate telecom system

VOICE MAIL	Some carriers offer more sophisticated features, such as pager notification and separate mailboxes for each household member.
AUTOMATIC REDIAL	Press a code, hang up, and your phone will keep dialing a busy or unanswered number. When a connection is made, your phone will ring, signaling you to pick up.
THREE-WAY CALLING	Lets you add a third person to a call, allowing on-the-fly conferencing; especially helpful to connect clients with your contract workers in faraway cities.
CALLER ID	This feature displays the number of the incoming call on the screen of a specially equipped phone or can be linked to your PC, allowing you to greet customers by name or instantly access their customer file.
ISDN LINE	A high-speed phone line that can send and receive voice, faxes, and computer transmissions simultaneously.

DATA: BUSINESS WEEK

IOME ISN'T WHERE 'HE TAX BREAK IS

hat home office ou've set up is a real ozy place to get work one. Just don't pect to get a tax write-off, o. These days, it's almost possible to qualify for a me-office deduction. Even you think you fall within e rules, it still may not be rth doing.

If you're self-employed, ur home office must be ed exclusively for business. at means if you're audited, hoto of the room had bet- not show sofas, TV sets, personal effects of any d. A tougher standard w out of a 1993 U.S. preme Court decision that 's your home office must the principal place where make your money. The ing, *Commissioner vs. iman*, concluded that an sthesiologist who saw his ients in a hospital and rely used his office to do erwork couldn't deduct office be- se he didn't form his le there. That sharply tailed the number of tax- ers who could claim a e office.

M AND LETTER. If you're employee, you must prove home office was set up the convenience of your loyer. Whether you're a mom on maternity leave someone who frequently ks at home to avoid a commute, you can't have office available at your e of business that you ly choose not to use. nerally, people need a let- from their employer say- it isn't feasible for them rovide office space," says ard Kent, a Coopers & and partner in Detroit. ill think you qualify for a e-office deduction? You must then file Form 8829. But of 15 million sole proprietorship filers in 1992, only 1.6 million took the deduction. Why? The IRS concedes that claiming a home office increases a return's complexity—and complex returns are more likely to be audited. If you have taken aggressive positions elsewhere on your return, the additional audit risk may not be worth the added deductions.

To calculate potential tax benefits, list all of your expenses as a homeowner that you can't deduct elsewhere. Your mortgage and property taxes are already itemized deductions, so forget them. Your computer and fax costs, phone bills, and furniture would be business expenses even without the home-office deduction. That leaves items such as homeowners insurance, utilities, and exterior maintenance (or rent if you're an apartment dweller).

WORKING FROM HOME

Let's say your homeowners' insurance is $1,000 per year and your utilities are $1,500. Plus, you spent $20,000 on exterior maintenance—a new roof, painting, etc. Your home has 3,000 square feet, and your office takes up 600 square feet. Your office represents 20% of your home's floor space, so you can deduct $500 of utilities and insurance—20% of $2,500. You can depreciate $4,000 of your exterior maintenance over 39 years, or $103 per year. Thus, your total annual home-office deduction is $603.

For taxpayers in the 31% federal bracket, that's worth just $187.

Add a $50 benefit if you're in a high-tax state and an additional $100 when you consider self-employment taxes. But if you're audited, your accounting fees alone could easily exceed $1,000—not to mention the lost deductions, interest, and penalties that could arise if the IRS auditor disallows other unrelated deductions. And if you're an employee, a home-office deduction may be worthless. It falls under miscellaneous itemized deductions, which you can write off only if they exceed 2% of adjustable gross income.

A home office can also foul up two major tax benefits afforded homeowners. One allows you to defer capital gains on the sale of a home if you buy a more expensive one. Let's say you paid $200,000 for a house 10 years ago and it's worth $350,000 today. If you had been claiming a home office of 20% of your square footage, then you would have to pay tax on $30,000 of the gain. That is, 20% will be treated as business property and won't qualify for the rollover provisions that permit you to avoid capital gains as long as you invest in a more expensive house, or the $125,000 capital-gains exclusion you would normally get at age 55.

LESS RISK. Many members of Congress want to reverse the *Soliman* decision, but if that happens, it won't be before late summer. Then, more people would qualify for the home-office deduction. But they might still find it isn't worth much.

A better option might be to incorporate. True, corporations are not permitted home-office deductions, but there is at least one offsetting bonus: You can deduct all of your medical expenses. As a sole proprietor or employee, you can only deduct medical costs when they exceed 7.5% of your adjusted gross income. That means if your income is $100,000, the first $7,500 in medical expenses are not deductible. If you incorporate, though, you can run your medical costs through the corporation. That's probably worth a lot more than a home-office deduction, without the audit risk. *Stuart Weiss*

Even if you qualify, the home-office deduction may not be worth much

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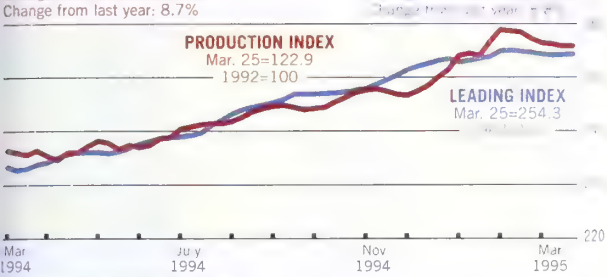
THE STORAGE ARCHITECTS

Business Week Index

PRODUCTION AND LEADING INDEXES

Change from last week: 0.0%
Change from last year: 8.7%



Indexes are 4 week moving averages

The production index was unchanged during the week ended Mar. 25. Before calculation of the four-week moving average, the index edged up to 123.1, from a revised 122.2. Increases in seasonally adjusted output of autos and electric power lifted the index.

The leading index increased slightly in the latest week. The unaveraged index also rose, to 254.6 from 254.4, boosted by the pickup in stock prices and M2 growth.

Production index copyright 1994 by McGraw-Hill Inc. BW leading index copyright 1994 by CIBCR

PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/1) thous. of net tons	1,980	2,036#	4.5
AUTOS (4/1) units	147,521	150,887r#	34.1
TRUCKS (4/1) units	118,614	120,368r#	28.7
ELECTRIC POWER (4/1) millions of kilowatt-hrs	54,969	55,091#	2.5
CRUDE-OIL REFINING (4/1) thous. of bbl./day	13,478	13,402#	4.7
COAL (3/25) thous. of net tons	21,226#	21,258	-2.7
PAPERBOARD (3/25) thous. of tons	923.4#	905.0r	5.2
PAPER (3/25) thous. of tons	851.0#	840.0r	4.0
LUMBER (3/25) millions of ft.	449.9#	446.6	5.4
RAIL FREIGHT (3/25) billions of ton-miles	24.2#	24.1	3.0

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

LEADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STOCK PRICES (3/31) S&P 500	502.63	496.76	11.5
CORPORATE BOND YIELD, Aaa (3/31)	8.08%	8.10%	5.6
INDUSTRIAL MATERIALS PRICES (3/31)	113.9	114.3	NA*
BUSINESS FAILURES (3/24)	NA	NA	NA
REAL ESTATE LOANS (3/22) billions	$468.5	$468.5	11.1
MONEY SUPPLY, M2 (3/20) billions	$3,603.0	$3,590.3r	1.5
INITIAL CLAIMS, UNEMPLOYMENT (3/18) thous.	346	343	1.8

Sources: Center for International Business Cycle Research (CIBCR), Standard & Poor's, Moody's, *Journal of Commerce* (index: 1990=100), Dun & Bradstreet (failures of large companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on business failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/5) $/troy oz.	392.050	383.000	1.6
STEEL SCRAP (4/4) #1 heavy, $/ton	137.50	137.50	1.9
COPPER (4/1) ¢/lb.	145.1	145.2	56.9
ALUMINUM (4/1) ¢/lb	89.5	87.0	40.9
COTTON (4/1) strict low middling 1-1/16 in., ¢/lb.	97.42	104.69	33.1
OIL (4/4) $/bbl.	19.07	18.93	21.1

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

INTEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
FEDERAL FUNDS (4/4)	6.08%	6.10%	3.69%
COMMERCIAL PAPER (4/5) 3-month	6.14	6.15	3.99
CERTIFICATES OF DEPOSIT (4/5) 3-month	6.13	6.17	3.93
FIXED MORTGAGE (3/31) 30-year	8.59	8.63	8.19
ADJUSTABLE MORTGAGE (3/31) one-year	6.37	6.40	4.74
PRIME (4/5)	9.00	9.00	6.25

Sources: Federal Reserve, HSH Associates, Reuters, Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/5)	86.30	88.25	105.25
GERMAN MARK (4/5)	1.38	1.38	1.71
BRITISH POUND (4/5)	1.61	1.61	1.48
FRENCH FRANC (4/5)	4.83	4.87	5.87
ITALIAN LIRA (4/5)	1718.1	1705.5	1632.3
CANADIAN DOLLAR (4/5)	1.39	1.40	1.38
MEXICAN PESO (4/5)	[illegible]	6.795	3.355

Sources: Major New York banks. Currencies expressed in units per U.S. dollar.

All data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense equipment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

PRODUCER PRICE INDEX

Friday, Apr. 11, 8:30 a.m. ▶ Producer prices of finished goods likely increased by 0.3% in March, the same modest gain recorded in January and February. That's the forecast of economists surveyed by Bloomberg International, a division of McGraw-Hill. Excluding food and energy, prices probably rose 0.3% as well last month, the same increase as in February.

CONSUMER PRICE INDEX

Wednesday, Apr. 12, 8:30 a.m. ▶ Just like producer prices, consumer prices in March probably increased by 0.3%, for both the overall index and the core rate that excludes food and energy. Total CPI and the core index each rose 0.3% in February. The expected advance would mean that prices in March were up a mild 3% from a year ago. Inflation remains very acquiescent, even as the U.S. economy starts its fifth year of expansion.

RETAIL SALES

Thursday, Apr. 13, 8:30 a.m. ▶ Retail sales probably rose 0.5% in March, says the MMS report. That's indicated by the weekly surveys of sales at department and chain stores. Retailers have been struggling in early 1995. February sales fell 0.4%, but some of that weakness reflects a delay in income-tax refunds, as the government searches for tax fraud.

INDUSTRIAL PRODUCTION

Friday, Apr. 14, 9:15 a.m. ▶ Output at the nation's factories, mines, and utilities probably rose just 0.2% in March. That's suggested by the weak report on production by the National Association of Purchasing Management. Output grew 0.5% in February. Operating rates in March likely rose to 85.8%, from 85.7%.

BUSINESS INVENTORIES

Friday, Apr. 14, 10 a.m. ▶ Inventories held by manufacturers, wholesalers, and retailers probably grew by 0.6% in February, after a 0.9% jump in January. Business sales likely rose just 0.2% in February, after rising 0.1% in January.

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BusinessWeek ONLINE

This Week, Online

Business Week presents live conferences with editors and newsmakers. It's your opportunity to ask questions about features from the magazine.

Sunday: Will schools ever get better? There's still hope, says this week's Cover Story. Bring your questions on education to two of the authors, Economics Editor Michael J. Mandel and Chicago Bureau Manager Richard A. Melcher. **Apr. 9 9 p.m. EDT in the Globe**

Monday: BW Chief Economist William Wolman updates the investment outlook for 1995, with one quarter down and three to go. **Apr. 10 9 p.m. EDT in the Coliseum.**

Transcripts of all conferences are available for downloading from the BW Online area on AOL soon after each event. For a free trial diskette including 10 free hours on AOL, call 1-800-641-4848 and mention Business Week.

America Online

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This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

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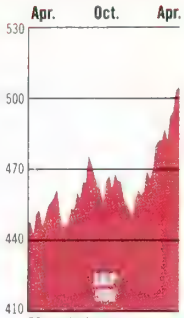
nvestment Figures of the Week

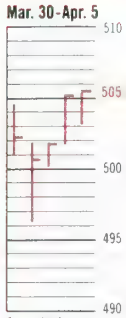
MMENTARY

big news in the markets was dollar, which slid against the r major currencies despite ue efforts by the Federal Re- e and other central banks. ers were concerned about the trade deficit. Fears that the may not boost interest rates spurred the decline. But the equity markets were far rier, with the blue chips soar- o a record. The Dow Jones in- rial average climbed to a high 201.6 on Apr. 4. But the dol- woes dragged down stocks.

STOCKS

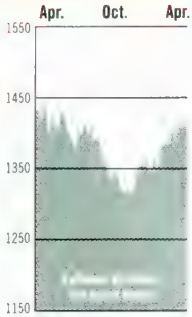


52-week change
+12.8%

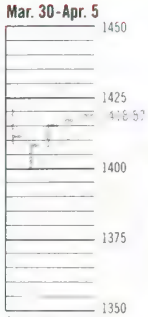


1-week change
+0.5%

BONDS

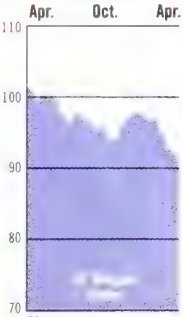


52-week change
–0.9%

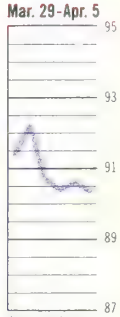


1-week change
+0.1%

THE DOLLAR



52-week change
–11.0%



1-week change
–1.1%

ARKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
JONES INDUSTRIALS	4200.6	1.0	14.2
IZE COMPANIES (S&P MidCap Index)	183.2	0.5	5.3
L COMPANIES (Russell 2000)	261.2	0.5	2.6
OMPANIES (Russell 3000)	287.6	0.4	10.6

EIGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
ON (FINANCIAL TIMES 100)	3190.2	1.5	1.9
O (NIKKEI INDEX)	15,882.5	–3.5	–19.4
NTO (TSE COMPOSITE)	4285.1	–0.3	–0.7

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.83%	5.80%	3.65%
30-YEAR TREASURY BOND YIELD	7.37%	7.37%	7.25%
S&P 500 DIVIDEND YIELD	2.60%	2.61%	2.82%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.6	20.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	467.0	465.9	Positive
Stocks above 200-day moving average	61.0%	57.0%	Neutral
Speculative sentiment: Put/call ratio	0.82	0.67 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.09	1.00	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

F-WEEK LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
LD MINING	19.3	–4.0	SANTA FE PACIFIC GOLD	21.4	NA	12¾
FENSE ELECTRONICS	16.2	22.3	E-SYSTEMS	45.4	45.4	63⅝
ECIALTY APPAREL RETAILERS	15.7	–12.7	THE LIMITED	22.5	7.8	22½
VERSIFIED MACHINERY	10.4	0.8	CLARK EQUIPMENT	59.6	40.1	83
TELS AND MOTELS	10.1	17.2	HILTON HOTELS	13.1	32.2	75⅜

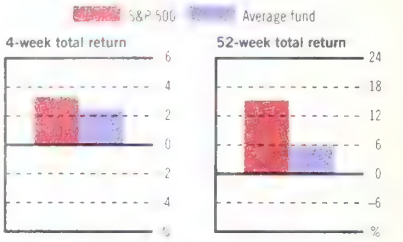
-WEEK LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
UCKING	–6.0	–23.2	YELLOW	–18.5	–30.9	16½
OADCASTING	–5.3	7.4	TELE-COMMUNICATIONS	–11.1	–3.6	20
MEBUILDING	–2.4	–22.1	KAUFMAN & BROAD HOME	–12.9	–36.9	12⅝
OD WHOLESALERS	–1.9	14.6	SYSCO	–5.2	5.9	27⅛
OHOLIC BEVERAGES	–1.1	7.7	SEAGRAM	–5.4	2.7	28½

TUAL FUNDS

MORNINGSTAR INC

ERS veek total return	%
DEX PRECIOUS METALS	21.4
EL MIDAS GOLD	20.9
PIELLO-RUSHMORE GOLD	19.9
ek total return	**%**
ETT SMALLER COMPANIES	49.2
IGMAN COMMUNICATIONS & INFORM. A	47.8
ELITY SELECT HEALTH CARE	44.2

LAGGARDS Four-week total return	%
WARBURG PINCUS JAPAN OTC SERIES 2	–9.8
STEADMAN OCEANOGRAPHIC TECHNOLOGY	–7.2
AMERICAN HERITAGE	–5.0
52-week total return	**%**
MONITREND GOLD	–46.6
BT INVESTMENT LATIN AMERICAN EQUITY	–42.7
HERCULES LATIN AMERICAN VALUE	–42.5



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the t value of $10,000 ed one year ago h portfolio

ntages indicate y total returns

U.S. stocks	Foreign stocks	Treasury bonds	Money market fund	Gold
$11,605	$10,927	$10,749	$10,514	$10,193
+0.27%	+0.89%	+0.47%	+0.20%	+2.62%

on this page are as of market close Wednesday, Apr. 5, 1995, unless otherwise indicat- stry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 4. Mutual fund returns are as of Mar. 31. Relative portfolios are valued as of Apr. 4. A more detailed explanation of this page is available on request. r=revised NA=Not available

NOW, REINVENT THE SCHOOLS

Forget about schools as simply places to teach kids. Devolution is chic in Washington, so now is the time to see schools for what they really are—local government institutions. Some 30% of all civilian government employees in the country, 6 million people, work for the public schools. Some one-third of all state and local spending on goods and services goes to elementary and secondary education. That's upward of $265 billion. Schools are Big Government at the local level, and that is precisely why they are in such a mess (page 64).

Reengineering this apparatus, in much the same way Corporate America has been restructured, is critical to providing quality education. Most schools are nothing less than a caricature of an old industrial factory—rigid, top-down, bureaucratic, and rules-driven. It makes for incredible inefficiency. Only 52¢ of the average dollar spent on public education gets into the classroom. Where does the rest go? Nobody knows.

School systems typically have only a dim idea of how much goes where. When Christine Todd Whitman, New Jersey's Republican governor, recently instituted a new accounting system that disclosed costs, school districts discovered they were spending $3,000 to $6,000 per student every year for administration alone. Nationally, per-student spending has gone up 25% over the past decade, adjusted for inflation, without much to show for it. Now we know why, in part.

There are other reasons. Too much government, for one. The suburbs of America are a crazy quilt of independent school districts, each with its own administration and buildings. Paid $100,000 to $150,000 in many regions, top admin trators beget managers who beget assistants who beget . And cities are no better. Local, decentralized school distri are run as patronage machines by local politicians who tra jobs and contracts for votes.

Then there are the teachers, most of them dedicated a talented. Still, teachers have turned to a powerful union protection, and it has done its job well. At the federal lev the National Education Assn. virtually determines policy education. At the local level, it has been able to win lifelo tenure for its members, plus a compensation package that the envy of most working people: 10-week vacations an gold-plated package of health and pension benefits that dis peared in the private sector long ago. Why? Companies co not longer afford it. Neither can taxpayers.

What can be done to improve educational productivi Plenty. Site-based accounting can disclose waste and un educational needs. Charter schools and vouchers can prov critical competition. Instead of new buildings, both the sch day and school year can be extended to pack in more class Keeping schools open until 5:30 would help working paren and extending the school year through July could provide extra capacity to absorb the growing number of children.

Throwing money at poor education has proven problem ic at best. Scores have not improved appreciably despite lions in new funding. Schools are government institutions. time to reinvent them.

MEXICO: CREDIT WHERE CREDIT IS DUE

What country is running a surplus in both its trade and budget accounts? Germany? No. Japan? No. The U.S.? Hardly. Mexico, thank you. What country, facing a horrific currency crisis, has had the political courage to ram through huge tax increases on consumption—not investment or personal income—and sell off big stakes in state-owned companies? France? Never. Spain? Not yet. Mexico again. What country, facing grave economic conditions, has kept its capital and trade markets totally open? You guessed it.

Mexico's bad rap on Wall Street is blinding people to the speed with which it is moving through its post-peso-crash deflation and recuperation. The country is running its first trade surplus in seven years. The Bolsa is moving up (it's off 17% for the year, compared with 21% for Japan's Nikkei 225 Index), and the peso appears to have stabilized.

That's why the mischief created by Senator Alfonse M. D'Amato (R-N.Y.) is so destructive. His move to kill the financial-rescue package for Mexico throws just enough doubt into the markets to keep foreign investors from returning.

D'Amato's move doesn't make life easier for President Ernesto Zedillo Ponce de León, who must meet two challenges. Inflation, now running near 60% annually, must be crushed. sharply deflating economy, spurred on by a 5% hike in the ue-added tax, should do it, allowing interest rates runn currently at 100% to drop and revive the private sector.

Corruption is another matter. The great surprise to co out of the Mexican financial crisis is how widespread na corruption is within the highest circles of the Mexican po cal Establishment. The sense that Mexico was about to the First World group of nations was shattered by the re lation of drug money insinuating itself to the very to the Salinas government. Zedillo must build a modern reaucracy—from a truly independent central bank to a m ern police force, uncorrupted by drug money. This is no sm task for one man in a country that kills its political lead with appalling frequency.

The "emerging market" euphoria surrounding Mexico in early 1990s may have been naive, particularly in its ignora of the political dimension to development. But the gl surrounding the country's prospects today is equally inv Mexico is taking extreme pain to right its economy. It surprise everyone with how fast it snaps back to health.

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NESS WEEK
April 24

994 EXECUTIVE PAY / BRONFMAN'S BIG BET

BusinessWeek

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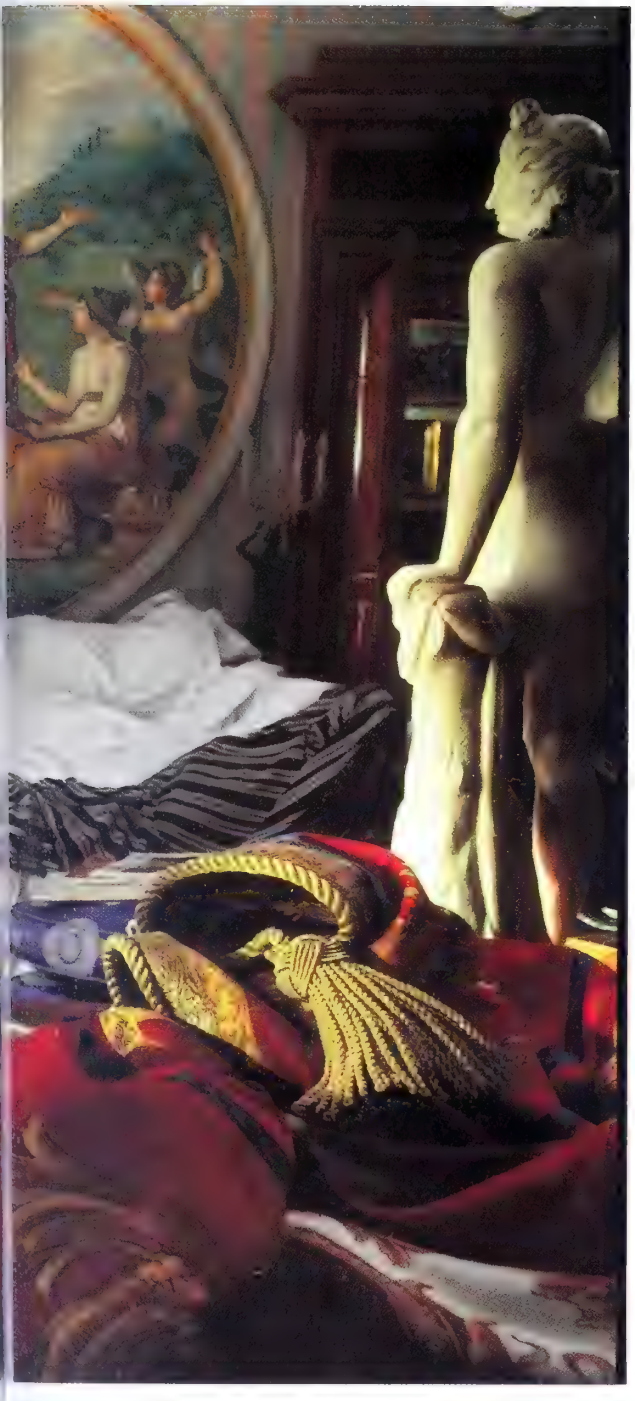

From metal-mesh evening gowns to red polyvinyl suits, *Gianni Versace* has earned a reputation for boldly creative designs. And lately, they're brought to life on a new IBM ThinkPad® 701C. Working from the bedroom of his Lake Como villa, Versace draws on neoclassical surroundings for design inspiration, using his ThinkPad to freely experiment with color and style. An approach that, uniquely, marries 18th-century art with 20th-century technology.

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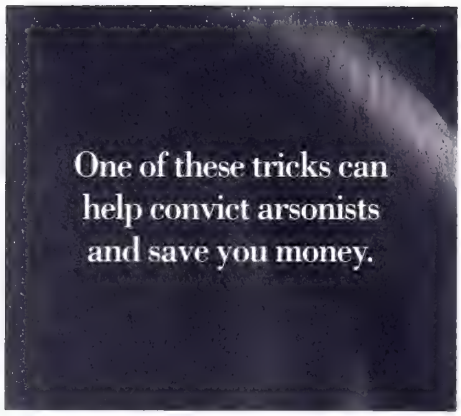

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Kirk Kerkorian an
Lee Iacocca make
bombshell bid for
No. 3 carmaker. Ca
they really pull it o
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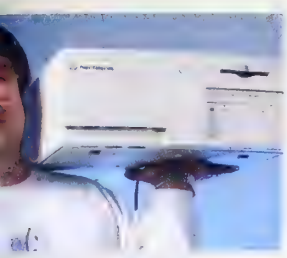

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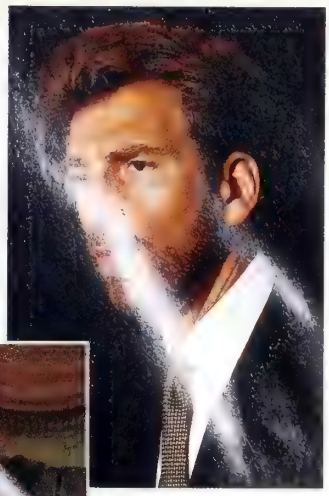
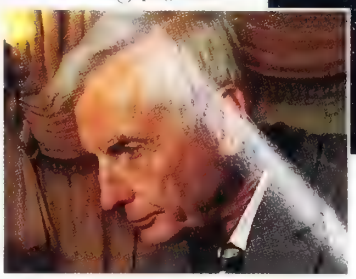
As Seagram splits from DuPont, Bronfman faces skeptics while Woolard hears cheering page 122





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Driven by grants of lucrative stock options, the compensation of top U.S. managers is set to soar
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The Clintonites figure the soaring yen finally gives them the weapon to open Japan's markets
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Matsushita is retreating. Other Japanese companies seem here to stay

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CEO Edgar Woolard—and investors in his company—are elated at the chance to buy back Bronfman's stake. It puts the icing on a hard-fought turnaround

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Up Front

EDITED BY LARRY LIGHT, WITH OLUWABUNMI SHABI

1969: *Johnson and Johnson*

POWER COUPLES

THE SPLIT ENDS FOR A HAIR-CARE DUO

THE JOHNSONS, WHOSE 1989 divorce threw their black hair-care company, Johnson Products, into turmoil, are getting back together. George and Joan Johnson will remarry on Apr. 22 at the Ritz-Carlton in Chicago.

One casualty of the strife was family control of Chicago-based Johnson Products, once among the largest black-owned companies in America. In the divorce settlement ending their 38-year union, founder George Johnson turned over his stock to Joan, who assumed his chairman's seat. Then in 1993, Joan sold Johnson Products to IVAX, a nonminority-owned holding company. An outraged George called the sale a "nightmare." The children got caught up in the feuding, too. Son Eric Johnson was promoted to president by his mother only to resign in 1992 in a dispute over his sister Joanie's role at the company.

Joan, 66, who got more than $33 million from the IVAX sale, is now retired. George, 68, is chairman of Indecorp, the largest U. S. black-owned banking company. The couple isn't talking about how or why they reconciled, but son Eric says they missed each other after all their years together. "There's a very thin line," he says, "between love and hate." *Susan Chandler*

SELLING

GERSTNER GOES INTO WARP DRIVE

YOU KNOW IBM IS SERIOUS about pushing its struggling OS/2 Warp software when even CEO Louis Gerstner starts making calls. As part of Big Blue's latest attempt to make inroads against archrival Microsoft Windows, Gerstner is personally coaxing software developers to make their programs compatible with IBM's operating system.

BIG BLUE BAIT: *OS/2 offer*

He has plenty of support. In a Mar. 27 memo, he ordered that his top 100 executives each call 10 of the top software developers worldwide. (Gerstner won't say whom he buttonholed.) And when IBM shareholders received the company's annual report recently, they found an offer good for $30 off when buying OS/2 (street price: $79). IBM is backing it all up with a $50 million promotional blitz for OS/2, mainly television and radio ads.

What's behind the new drive? For one thing, Gerstner is tired of talk that he's about to give up on OS/2, which IBM has spent an estimated $2 billion developing. And with Microsoft's promised upgrade to its popular Windows program hitting snags, IBM sees its best shot at gaining converts to OS/2. *Amy Cortese*

TALK SHOW "If we are truly to rein in government, we must have a President who is more than a clever apologist for the status quo."

—Senate Majority Leader Bob Dole, announcing his third run for the White House

THE FEDS

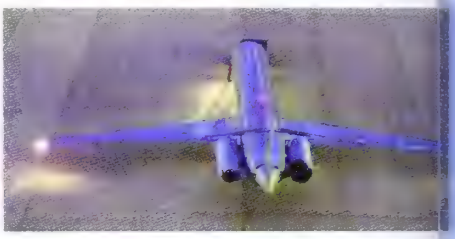
BRIGHT LIGHTS, BIG DOGFIGHT

ARE THE FLASHING LIGHTS on airliners too dim to prevent collisions? Federal regulators are pushing the airlines to boost the candlepower of their fleets' strobe lights by Sept. 1. But the carriers are resisting, saying stronger lights aren't needed and are too expensive: They would cost the ailing industry an extra $40 million yearly.

The lights, mounted on the fuselage, tail, and wingtips, are mainly safeguards for landings and takeoffs, particularly at night and in poor weather. Once in midair, planes rely on air-traffic controllers to avoid collisions.

The Federal Aviation Administration cites dozens of close calls during the past two decades—and at least one fatal crash—in which it says poor warning lights were a factor. The crash: a 1991 nighttime accident at Los Angeles International Airport where a landing U Air jetliner hit a SkyWe commuter craft waiting the runway; 34 died. A 19 study by consultant Strote concluded that at least 50 of the major airlines' 4,5 planes didn't meet the fe standards for warning ligh

The Air Transport Ass the industry trade group, gues these standards are



TWINKLE, TWINKLE: *Are strobes too weak*

bitrary; the feds say go studies back them up. War ing-light rules have be around 23 years, yet were enforced because the indu try couldn't measure strol strength. They have the too now. The FAA had grant the airlines a two-year r prieve until September, a they are appealing to Co gress. *Christina Del Va*

THE LIST **A PRIVATE AFFAIR**

Like a bit of privacy? Good luck. Retailers happily sell data about you to direct mailers and others. And with the coming of "smart cards"—credit cards with info on you carried in a chip—worries intensify. But what dat are consumers mos leery about? A surve shows the closer snoop comes t things you do ever day—whom yo call, what video you watch—the more sensi tive you get.

WHAT INFO IS O.K. TO GIVE OUT

INFORMATION	PERCENT SAYING ACCEPTABLE	INFORMATION	PERCENT SAYING ACCEPTABLE
YOUR NAME	73%	PRESCRIPTION DRUGS YOU BUY	2
YOUR DATE OF BIRTH	70	VIDEOS YOU RENT	2
YOUR CREDIT HISTORY	53	CREDIT CARD PURCHASES	2
YOUR MEDICAL HISTORY	28	PHONE NUMBERS YOU CALL	1

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Up Front

VIETMANIA

HEARTS AND MINDS, PART II

NAM: *Will corporate charity win pals?*

U.S. CORPORATE LARGESSE IS raining down on Vietnam, Asia's newest emerging tiger. This coincides with the 20th anniversary of the Vietnam War's end on Apr. 30. For some, that date evokes the humiliating image of panicking South Vietnamese clinging to the skids of fleeing American helicopters. But a host of U.S. companies hope good deeds coinciding with the anniversary will build goodwill. Although President Clinton lifted the trade embargo last year, he is reluctant to restore full diplomatic ties, so progress for U.S. business has been slow.

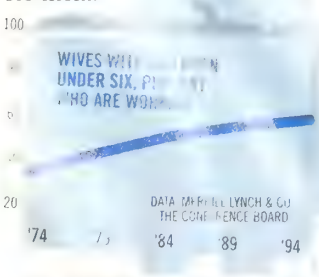
One effort to balm leftover bitterness is the Apr. 23 airlift of $7 million worth of medicine to clinics and hospitals in Hanoi and Ho Chi Minh City. The airlift, underwritten by McDonnell Douglas, Federal Express, and dozens of others, was organized by Heart to Heart International, a charity group. Says Mark Schlansky, a McDonnell exec: "This is a time of healing."

Among the other bids to do well by doing good: The Business Alliance for Vietnamese Education is helping to launch an English-language curriculum for Vietnam's schools. McDonnell and 19 other blue-chip companies are giving $35,000 each to train Vietnamese teachers at UCLA this summer. *Amy Borrus*

THE BIG PICTURE

MORE SUPERMOMS

It used to be a sign of economic necessity when married women with small kids worked. That's still true, but there are other reasons this group has almost doubled in size over 20 years. Many such women want to keep careers and employers have adopted more flexible hours for them.



DRAWN & QUARTERED

PRODUCT PEEK

STARBUCKS' JAVA-JAZZ FUSION

STARBUCKS IS GOING INTO THE music business. The popular coffee bars, big on background jazz music, are packaging the tunes on CDs and selling them along with double nonfat no-whip lattes. In a partnership with the Blue Note label of Thorn-EMI-owned Capitol Records, the chain's first album is called *Blue Note Blend*. It features such greats as Billie Holiday, Louis Armstrong, and Nat King Cole (playing a little-known piano-only version of *I Get a Kick out of You*). To go with it, Starbucks developed Blue Note Blend coffee (a melodic mixture of rich coffees . . . easy as a velvety saxophone riff"), in blue bags to match the CD jacket.

CD: *Vintage vibes from Capitol*

Starbucks CEO Howard Schultz got the idea after Kenny G's *Miracles* sold well in Starbucks stores last Christmas season. Schultz is a good buddy of Kenny G, and the musician was an early investor in the company. Many regular customers told Starbucks they like jazz. Schultz hopes to produce up to four Starbucks CDs a year, using newly rediscovered old tunes from Capitol Records' huge library. *Dori Jones Yang*

EXECUTIVE SWEETS

THE HONCHO IS A HEADHUNTER

IT'S TOUGH FOR CEOS to give up their nice perch. At Toro, the board has found an intriguing way to deal with the problem: Simply pay the chief $1.5 million to find his own successor.

It's not that the lawn-and-garden equipment maker's board is unhappy with Kendrick Melrose, 55. During his 12-year tenure, Melrose has guided the company to consistent sales and earnings increases. But five years from now, when he's only 60, they want him to make way for fresh blood.

Some think that picking a successor is part of a CEO's job. The Toro board, though, wants to give Melrose an incentive to get a crackerjack replacement. He will bag that extra green if the successor takes over on July 1, 2000. Melrose gets $150,000 in stock and cash for developing a succession plan by 1999. Then, an additional $150,000 for tapping a successor in 1999. In 2000, with the new person in command, he collects $700,000 in stock and cash. The package is rounded out with an annuity worth $500,000 for signing a noncompete agreement.

MELROSE: *Picking next CEO*

Toro says that Melrose hasn't started looking, and that his replacement could come from inside or outside the company. *Kevin Kelly*

FOOTNOTES 1985: 1,107,000 words in tax law, 4,613,000 in tax regulations; 1994: 1,339,000 in law, 5,757,000 in regs

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Readers Report

INTERNET FEVER NEEDS A REALITY CHECK

Regarding your article "Planet Inter (Special Report, Apr. 3), there are a few things that are being overlooked in the current frenzy.

Perhaps the most critical of these is the inevitability of pay-per-usage and its likely impact. The facilities of the Internet are, to all intents and purposes, currently being donated. That obviously can't continue.

Another is the infrastructure issue. The only way that Internet access can become "ubiquitous" in the short to mid term is via telephone lines. But just a few million PCs "reaching into the Web" will shut down the public switched telephone network—there simply aren't enough circuits in the local telco offices to support the load.

Then there's the productivity issue. What is the opportunity cost of the millions of highly skilled and highly compensated hours being blown on "surfing the Net," let alone dealing with voluminous, and frequently vacuous, E-mail?

In short, let's have more reality in prognosticating about the Internet.

Andrew Allison
Carmel, Calif.

IS FORD DRIVING CUSTOMERS AWAY?

Alexander J. Trotman may be doing some things right at Ford (Cover Story, Apr. 3), but my experience suggests problems.

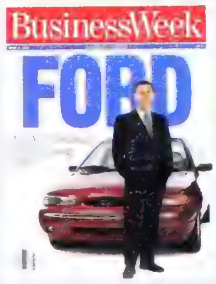
Ford paid me $7,500 in 1993 from a guaranteed resale program for the Scorpio in return for a lease of a new Ford. At the end of the lease, they did not try hard to keep me as a customer. Their lease offers on the new Contour and Taurus were not competitive. Other requests for service assistance on the Ford resulted in form-letter responses. The dealers to whom I've spoken have no leverage with Ford. Thanks to Ford's ineptness, I no drive an Infiniti J30.

Clyde J. Richards
Stratford, Con

As Ford cuts its supplier base fro 50,000 to 5,000, I wonder what will ha pen to its market share as 45,000 supp ers continue to work for Ford rivals ar encourage employee fealty to Gener Motors, Chrysler, Honda, and Toyota.

John Boy
Ann Arbor, Mic

Ford CEO Alex Trotman can boast a he wants to about global plans ar strategy, but the new Ford Windsta minivan is a new owner's nightmar We owned Grand Caravans. Loved 'er



SHAME ON FORD?

"CEO Alex Trotman can boast all he wants to about global plans and strategy, but the new Ford Windstar minivan is a new owner's nightmare"

Decided to switch. Bought a Windsta last fall. Big mistake. Heater didn work. We got it fixed. Brakes wer noisy. Had to get them fixed, too. Fro seat belts did not retract right. It too two months, 10 phone calls, and mar hours of our time to get them replace Ford's Consumer Service Dept. neve did help us.

Ford should be ashamed. It rushe the Windstar onto the market, and w new owners suffered as a result.

Lyle Caz
Glenview, I

BARBARIANS: PRO AND CON

The national economy emerged as winner in the RJR Nabisco Inc. buyo ("RJR: Big buyout, big fizzle," Editorial Apr. 3).

Undoing mistakes of the past is wh

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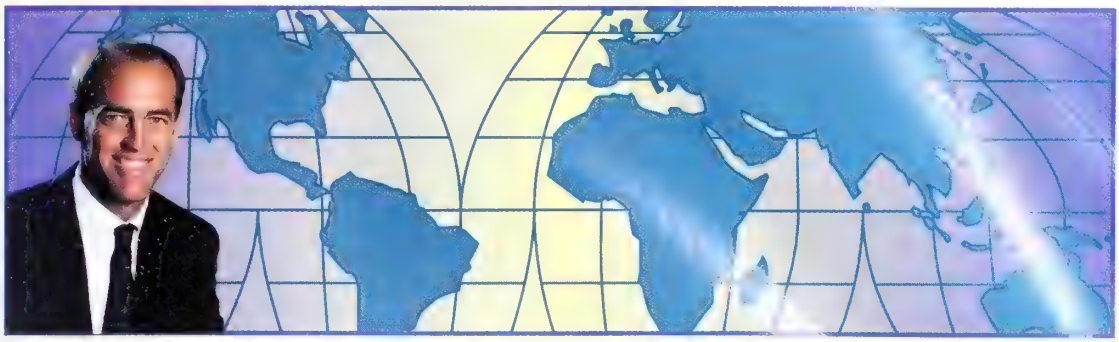

Mark Holowesko, Director of Templeton Global Equity Research

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A Member of the $116 Billion Franklin Templeton Group

this LBO was all about. The corpocracy days of H. Ross Johnson, when there were as many as 11 corporate jets (known facetiously as "RJR's air force"), are long gone.

BUSINESS WEEK's article mentions, though not approvingly, that RJR has shed more than 46,000 employees. These were redundant workers who will become more productive when they take other jobs.

I'm tired of the LBO-bashing in your magazine. Any LBO that cleans up a mess as great as the one Kohlberg Kravis Roberts & Co. inherited deserves a salute.

Geoff[illegible] E. Nunn
C[illegible]rtino, Calif.

The last paragr[illegible] in your editorial about KKR and [illegible]abisco says it all. There is only one word in the dictionary for people like Henry Kravis, and that word is "greed."

Herbert A. Yost
President
Wheeler Cadillac-Pontiac
Johnstown, Pa.

A LEAD PARACHUTE AT MORRISON KNUDSEN

In reference to "The morass engulfing Morrison Knudsen" (News: Analysis & Commentary, Apr. 3): If ever a board has more than ample reason to deny any and all severance benefits to a fired CEO, William J. Agee, the Morrison Knudsen board has them in spades. Let's hope they take this one last opportunity to show some backbone and do it.

Richard J. Cronin
President
Hodge-Cronin & Associates
Rosemont, Ill.

IMMIGRANTS BRING A WEALTH OF TALENT. DON'T CUT THEM OFF

In your Mar. 13 editorial, "Populism: Take the good, lose the ugly," I was surprised to see a mainstream publication such as BUSINESS WEEK write "perhaps reducing the very high level of legal immigration while the country absorbs the current wave is called for."

It is unfortunate that a pro-business journal such as yours would express such sentiments, particularly since immigrants are disproportionately entrepreneurs, scientists, and engineers.

Over one-quarter of all the advanced workers in Silicon Valley are Chinese immigrants, while 40% of the scientists in AT&T's Bell Laboratories' science wing are foreign-born. In fact, the ratio of foreign-born to native-born individuals with PhDs in engineering, from which the next wave of innovators will emerge, is now 1 to 1.

Reducing the number of legal immigrants would inhibit innovation and entrepreneurship at precisely the moment America needs them the most.

Jack Kemp
Co-chairman
Alexis de Tocqueville Institution
Arlington, Va.

CORRECTIONS & CLARIFICATIONS

In "The secret war inside Grace & Co." (News: Analysis & Commentary, Apr. 17), company director Robert C. Macauley should have been identified as the founder of a nondenominational, rather than a Catholic, charity.

THE PROGRESS & FREEDOM FOUNDATION IS NEWTLESS

Your article "The New Populism" (Cover Story, Mar. 13) twice referred to "Gingrich's Progress & Freedom Foundation." Because this implies that Newt Gingrich somehow dominates or controls the organization, it is misleading.

The Progress & Freedom Foundation, for which I am legal counsel, is a private, nonprofit, nonpartisan think tank established in 1993. As a tax-exempt charitable and educational organization, the foundation cannot and does not help, endorse, or otherwise advance the interests of any political candidate or party.

Although the foundation is very proud of its association with Gingrich, he is not and never has been a board member, officer, or employee of the foundation.

Jeffrey L. Yablon
Shaw, Pittman, Potts & Trowbridge
Washington

CLEARING THE RECORD ON THE COMMERCE DEPT.

The reporting on my Mar. 20 speech at the National Press Club on economic statistics was inaccurate. Your article, "The Commerce Dept. may be a goner" (Washington Outlook, Apr. 3), has me proposing that we "jettison" both the Bureau of Economic Analysis and the Census Bureau from the Commerce Dept. to form an independent statistical agency, "probably" outside Commerce.

What I said, and I quote here from the wire-service reports of the event, was: A "strong, defensible case could be made" for consolidating the various statistical agencies, but "the issue is whether or not we can improve [the statistical system] through consolidation, and in order to find that out, a lot of very detailed spadework has to be done." I also said that by listing the nine major agencies involved in economic and demographic statistics collection, I was "not necessarily saying [I] favored their merger."

I should also note that the issue of where to place such a consolidated agency, were one ever to exist, was unaddressed.

Everett M. Ehrlich
Under Secretary for
Economic Affairs
Commerce Dept.
Washington

WHY AMERICANS WILL DEMAND A THIRD PARTY

For the past several years, as you point out in "Have our political parties no shame?" (Editorials, Apr. 3), America has watched both the Republican and Democratic parties base their policies on staying in power rather than doing what is right for the American people.

What these politicians don't realize is that they are forcing Americans to find a third party that will truly represent them. Americans want a future for themselves and their children, and if Republicans and Democrats continue to deny it to us, we'll find someone who won't.

Evan Kaline[illegible]
Wayne, Pa.

CHIMP RESEARCH: DON'T SWING IT OVER TO MAN

Gingrich's application of Frans de Waal's observations ("Manager see, manager do," The Corporation, Apr. 3) merely demonstrates their validity within a society of monkeys. It does not guarantee their successful extrapolation to species higher on the evolutionary chain than the professional politician.

C. S. Colwell
Ellsworth, Me.

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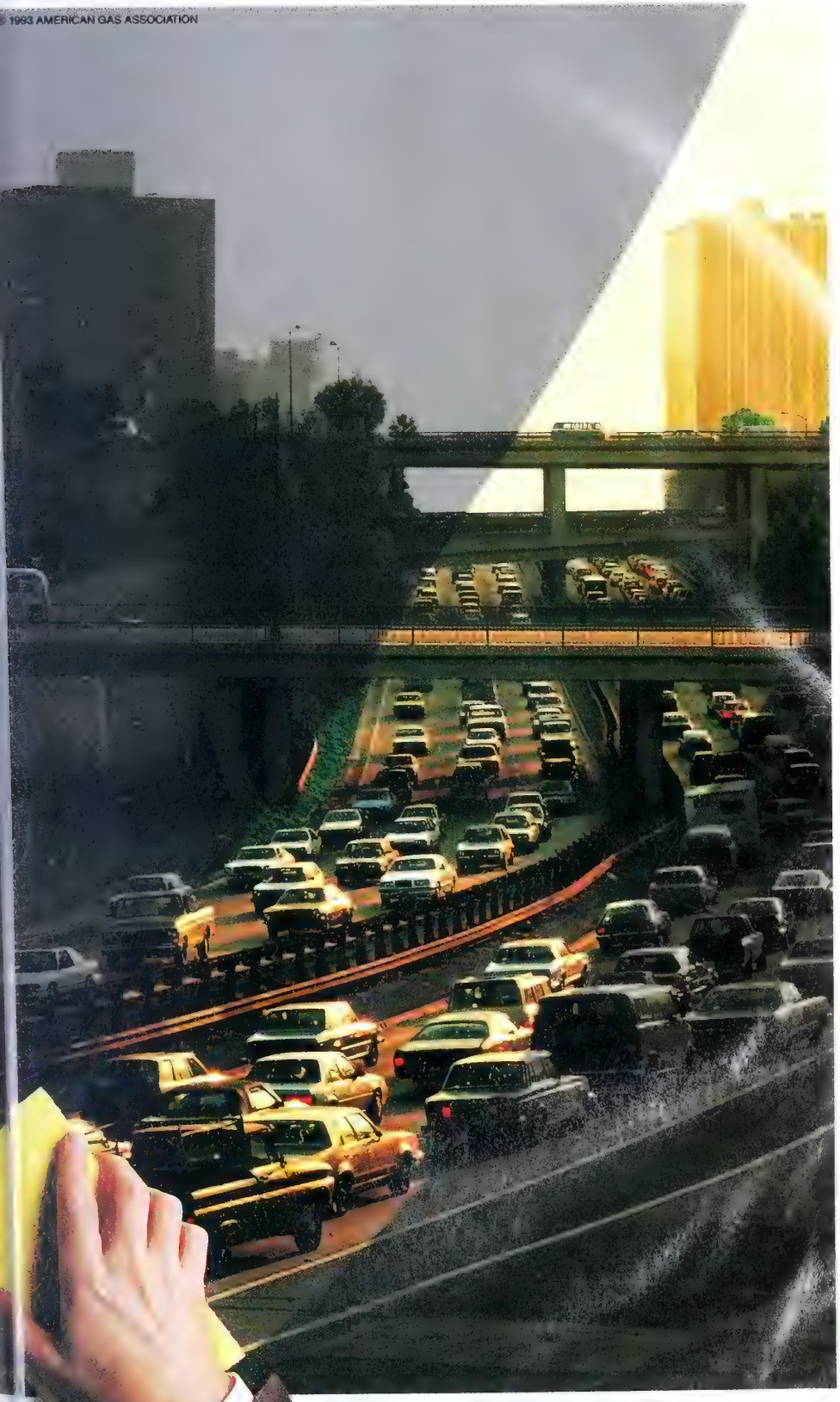
Don't you wish we could just do this to air pollution.



In a way we can—because cars and trucks that run on natural gas reduce the emissions that cause smog by 80%—and virtually eliminate soot.

The fact is, natural gas is the cleanest burning alternative fuel available today.

And the least expensive.

30% less expensive per mile than gasoline.

Because it's so clean, natural gas also cuts maintenance costs. Oil changes and tune-ups are cut in half, and there is less engine wear.

Small wonder that there are thousands of natural gas cars and trucks on America's roads today.

With more being built by Chrysler, Ford, and General Motors every day.

If all fleet owners—companies and communities—across the country would switch to natural gas as they replace cars and trucks, it would really make a difference in our air.

A breathtaking difference.

Clean, economical natural gas. Think what we'll save.

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Y STEPHEN H. WILDSTROM

THIS 'SECRETARY' REALLY LISTENS

Y ou answer the phone, and a friendly voice tells you that a colague is on the line. She ks if you want to take the ll. Once, it would have been e assistant sitting outside ur office. But that job dispeared in the last downsizg, and besides, you're on a lular phone in a rented car, 0 miles from work.

This is no futuristic fantasy, t a product that's been on e market since December. ldfire, from Wildfire Comnications Inc. (800 945-47), is an innovative nbination of nputer, voice-ognition, and ephone technoles that gives a a sort of tual secrey—wherever a happen to be. e a real assist-, Wildfire responds spoken requests. She ter a few weeks of nversing" with the female ce that is Wildfire, I find ard not to call the system e") is tireless. She places s for you, directs incoming s to the number of your ice, and puts through calls 've designated as impor-t, while taking messages other calls.

IPLE SPEECH. The heart of dfire is speech-recognition, echnology that's moving of the laboratory and into ir life. Telephone compas are using speech recogon to eliminate the last s of human intervention n directory assistance. alog orders may soon be dled by speech-recognizcomputers. As the technology gets cheaper and better, it will find a way into your PC—and maybe even your microwave.

Wildfire works well because it obeys the first law of speech recognition: Keep it simple. These systems work best when speech is confined to a limited vocabulary and precisely structured commands. Wildfire could understand me perfectly when I said, "That will be all for now," but not, "That's it for now."

Don't underestimate the power of simplicity. If I wanted to call the White House, I could just say "Call Bill Clinton." Wildfire would ask: "At home or at work?" "At work," I would say, and I'd soon have the White House switchboard. I could also create groups of people to whom I could broadcast voice-mail messages. "It buys me an hour a day in handling calls," says Barry McCurdy, research director for First Albany Corp., an investment bank.

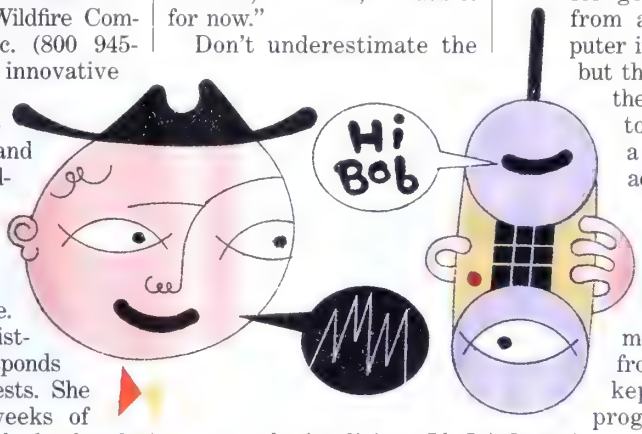
To gain that advantage, you have to scale a demanding learning curve that is endemic to voice-recognition systems. You get some help from a pocket reference card and online assistance that's activated by asking, "What are my options?" But only time can accustom Wildfire to your voice and speech patterns. "You have to teach her to understand what you say," says McCurdy. "You have to invest some time in training."

CONTACT LIST. One of the most powerful features of Wildfire also requires a particularly large slug of upfront time. The system maintains a database of contacts with their names and phone numbers. I found building this contact list to be a tedious business, especially since I had to spell the names either by using a dial pad or by speaking the "alpha-bravo-charlie" phonetic alphabet. Wildfire offers some methods for getting this data from a desktop computer into its database, but they're crude, and the job would have to be done by a computer-savvy administrator.

Planned software revisions would allow you to transfer information directly from contact lists kept on such programs as Lotus Organizer.

Wildfire is not cheap but the package should be within reach of many midsize businesses. A 25-user system fetches around $50,000, and the cost per user drops as systems grow, falling to about $1,300 in a 75-user setup. The system runs on standard PC hardware with specialized speech-recognition add-ons.

Until now, speech recognition has mostly been little more than a toy—or something that only users as big as a telephone company could afford. Wildfire shows that it can now be a real productivity tool for a growing number of people.



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PC CONNECTORS

A GO-ANYWHERE PLUG

If you've bought a laptop modem recently, it probably came with a warning never to plug it into the digital phone systems found in many offices and some hotels. Even if these systems won't fry your modem, they won't let it dial. That can make the Konexx Konector 111 from Unlimited Systems Corp. (800 275-6354) a useful addition to any

road warrior's kit. The $159 device, about the size of a pack of cards, plugs in between the handset and phone. You then plug your modem into the box and can safely connect using any sort of line.

FORMATTING

DIGITAL ESPERANTO

Electronic commerce is getting easier. Until now, corporations wanting to send documents to some courts and federal agencies had to convert them into a format called standard generalized markup language (SGML). This has required special editing software or tedious hand-coding. The conversion will be a breeze with an SGML version of WordPerfect coming from Novell Inc. (800 451-5151) in late summer. Then, you can simply prepare documents in regular fashion; the program converts them when you save. The planned list price is $595, or $295 as an upgrade from regular WordPerfect.

ILLUSTRATION BY PHILIP ANDERSON

QUESTIONS? COMMENTS? techandu@mgh.com on Internet or fax (202) 383-2125

"THE corporation is dead.

LONG LIVE *the* federation."

If there's one thing that the world will never run short of it's business advisers.

They're queuing up to offer their personal, and all very different, prescriptions to ease your business ills. There is, however, one thing on which they all seem to agree.

The traditional, lumbering, top-heavy and multi-layered corporations of today cannot survive in the new chaotic marketplace.

And what do they predict in their place? Federations of smaller companies and groups free to move quickly and efficiently in an ever changing marketplace.

Are they right? Can a Federation really work? At Cable & Wireless we have to answer an unequivocal "yes" to both questions.

We've been operating as a Federation for some time and we're now the fifth largest telecommunications group in the world.

It's a position we've attained by steadily building up partnerships with over fifty individual groups, including over a dozen governments, twenty local companies and more than twenty five other communications operators worldwide.

And when we say "partnerships" we mean it. If the situation demands it, we're prepared to accept a minority share.

After all, it allows the 40,000 people who work with us to select ideas, experience, equipment and even skilled personnel from a worldwide menu.

Take the mobile network set up recently by our colleagues at MTN in South Africa.

Because of their partnership with Cable & Wireless they were able to trawl the Federation for systems, equipment, advice and even key personnel.

They took a billing system, sales and marketing experience, and technical support from our partners in the UK (Mercury) and Bahrain (Batelco).

In fact they had so much support from the Federation that they were able to get the network running in a record five months.

That's how the Federation has worked for us. Over the next few weeks we'll be showing how it could work for you.

It's worth a read. After all, your business life might just depend on it.

THE CABLE & WIRELESS FEDERATION

An alliance of the world's most creative communications companies.

BY PAUL CRAIG ROBERTS

A MINIMUM-WAGE STUDY WITH MINIMUM CREDIBILITY

BAD CALL: Slipshod research is about to be honored. Is that because the laughable findings have friends in high places like the Oval Office?

Paul Craig Roberts is John M. Olin Fellow of the Institute for Political Economy and Distinguished Fellow of the Cato Institute in Washington, D.C.

If newspaper accounts can be believed, the American Economic Assn. intends to award its top prize to an economist who does not believe in the law of demand, the cornerstone of economic science.

Princeton University economist David Card is apparently due to receive the John Bates Clark Medal next January for research concluding that an increase in the minimum wage does not cause unemployment and may even produce an increase in jobs. President Clinton has based his case for a hike in the minimum wage on Card's conclusion, which is contradicted by economic theory and a vast accumulation of empirical evidence.

Normally, when confronted with research results that challenge a basic tenet of a science, scientists look at the data before they proclaim that the sky is falling. But not Professor Card. Even more curious, neither the reviewers and editors of *The American Economic Review*, who rushed Card's results to print, nor the economists who selected Card for the medal examined the data that produced the counterintuitive result.

If anyone in the peer review process had peeked at the data, it would have been obvious that something was seriously amiss. The association would have spared itself and Professor Card the embarrassment that comes from awarding a prestigious prize for flawed results.

Card and his Princeton colleague Alan B. Krueger, currently chief economist for Labor Secretary Robert B. Reich, drew their iconoclastic conclusion from data they collected from telephone interviews. They surveyed fast-food establishments in New Jersey and Pennsylvania before and after an 80¢ hike in New Jersey's minimum wage in 1992 to see if employment in the Garden State suffered by comparison.

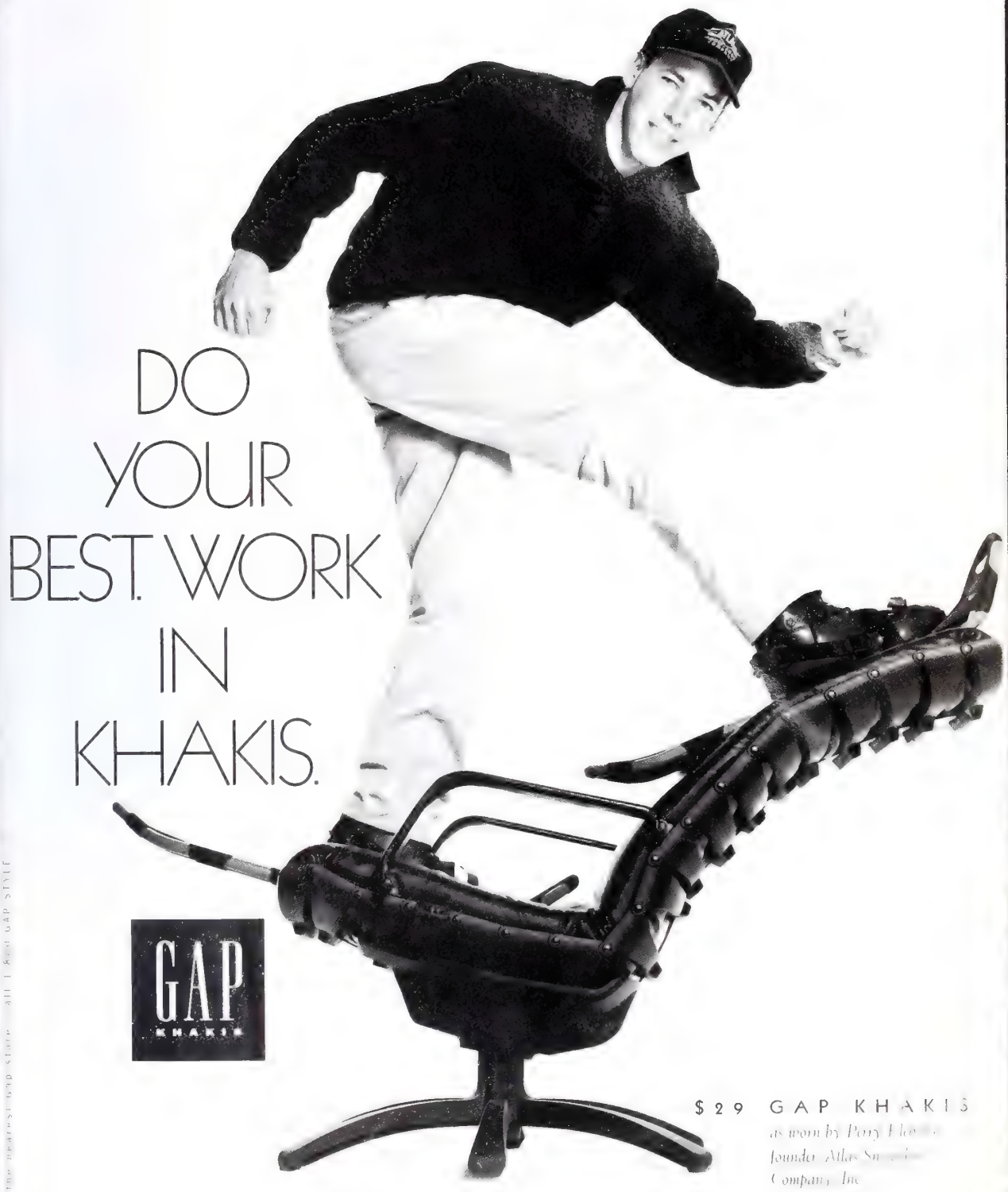
MEDIA CHORUS. The data they collected are characterized by implausibly large employment variations in the same establishments over the eight-month period between their surveys in February and November, 1992. For example, one Wendy's went from zero full-time and 30 part-time employees (0/30) in February to 35 full-time and 30 part-time employees (35/30) in November. Another Wendy's went from 30/10 to 0/30. One Burger King went from 6.5/20 to 30/25, while another went from 50/35 to 15/18.

The anomalies appear to result from different people answering the before-and-af telephone inquiries: In each case, responde read into the question their own definitions employment and the time period for which was being reported. The replies may ha ranged from employment on the shift dur which the telephone survey took place to entire payroll period. Moreover, the surv asked about the number of workers but the hours worked. The imprecisions in da collection would have warned any scient against putting stock in the results.

DUNCE CAPS. Instead, the Clinton Admin tration and its media allies spoke of this irr arably flawed study as "Nobel prize materi to cite *The New York Times*, as if the emp ical evidence accumulated over decades me nothing. Democrats used the study at a F 22, 1995, Joint Economic Committee (J hearing to impugn the integrity of witnes who testified that a higher minimum wa would price some workers out of jobs. Rep sentative Pete Stark (D-Calif.) was so abus of witnesses who disagreed with Card's fi ings that he had to be publicly rebuked front of TV cameras by JEC Vice-Chairm Jim Saxton (R-N.J.).

The media blitz aroused skepticism am many economists, including my fellow colu nist Gary S. Becker (BW—Mar. 6). Some them put the Card-Krueger "study" to test. Michigan State University Professor vid Neumark and Federal Reserve econom William Wascher acquired the actual pay data from fast-food establishments in N Jersey and Pennsylvania. The payroll d show that fast-food employment did not crease in New Jersey after the minimu wage increase. Instead, it declined 4.8% re tive to the control group in neighbor Pennsylvania. Thus, unsurprisingly, the law demand still holds.

Since few in the field of economics can lieve that the cornerstone of their edi could be undermined by such flawed data Card's, serious questions arise about the qu ity of the review process at *The Americ Economic Review* and the rigor of the sel tion process for the awarding of the Jo Bates Clark Medal. Political correctn seems to have crept into the inner sanct of the AEA, discrediting its scholarly jour and debasing its top prize. Unless the ass ation cleans up its act, it can kiss its credi ity good-bye.



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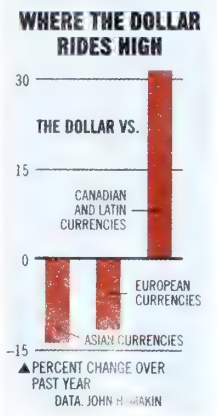
BY GENE KORETZ

A MONETARY TURNING POINT?

The birth of a new dollar standard

Behind the turmoil afflicting global currency and financial markets in recent months and the dollar's travails in Europe and Asia, economist John H. Makin of the American Enterprise Institute discerns an intriguing pattern. "I think we are witnessing a major shift in U.S. economic policy *vis-à-vis* Europe and Asia," he says, "the emergence of a monetary Monroe Doctrine—a hemispheric dollar standard."

This policy shift, claims Makin, is implicit in the stance of the Federal Reserve. Resisting pressures to prop up the plunging dollar against the yen and the mark, the Fed has instead emphasized the trade-weighted dollar's stability over the past year. And surprisingly, the stock and bond markets have responded by mounting rallies in spite of the dollar's weakness against major currencies.



The irony is that the dollar's overall stability comes from its strength against the shaky Canadian dollar, the fallen Mexican peso, and other weak Latin currencies. In part, the recent U.S. equity- and bond-market rallies have been fueled by the huge volume of dollars rushing out of Latin America in search of a safe haven. Declining U.S. interest rates relative to rates in Europe and Japan, in turn, have fostered the flow of short-term cash out of dollars into yen and marks.

The other part of the picture is the resilience of the U.S. economy, which is entering its fifth year of expansion without excesses and obvious price pressures. By adopting a hemispheric standard for the dollar and deferring an interest-rate hike, says Makin, the U.S. is sending a clear message to Europe and Japan: It will neither imperil its major trading partners to the North and South nor jeopardize its own expansion to keep German and Japanese currencies from appreciating.

In short, the U.S. has confronted Germany and Japan with what amounts to a competitive dollar devaluation. And this strategy is already boosting the prospects of U.S. exporters to Europe and Japan while undermining the competitiveness of European and Japanese exports to America and other nations with currencies tied to the dollar.

Pushed too far, warns Makin, this "devaluation" could feed on itself, touching off a wholesale run on the dollar, with calamitous consequences for the world economy. But pushed just far enough, it could propel Germany and Japan to further loosen their highly restrictive monetary policies and convert their current hesitant recoveries into the full-fledged global expansion observers have long anticipated.

U.S. EXPORTS' STRONG SUIT

Services should lead the parade

Although the greenback's weakness and economic growth overseas should help trim the widening U.S. merchandise trade deficit, Jack W. Lavery of Merrill Lynch & Co. argues that it is America's surging services exports that should really take off.

The reason: Compared with goods, the export of services—including travel, financial transactions, insurance, royalties, and fees—is more concentrated in areas where currency shifts and economic momentum are enhancing America's trade prospects. Last year, for example, while Latin America and Canada accounted for one-third of U.S. trade in goods, some three-fourths of America's growing $60 billion trade surplus in services was racked up in Western Europe, Japan, and Southeast Asia.

OFFICE RENTS: UP, UP, AND AWAY

They're soaring, especially in Asia

Surging economies in developing Asia, currency shifts, and a general global upswing are buoying dollar rents for prime office space, reports Colliers International, a real estate consultant and brokerage.

Hong Kong, Tokyo, and Bombay, says Colliers, are now the world's priciest markets, commanding effective annual rents (including operating costs, taxes, and landlord concessions) of $103 to $1[illegible] per square foot. Rounding out the t[illegible] 10, with rents from $54 to $90 per s[illegible] ft. are Beijing, Shanghai, Guangzho[illegible]

London, Singapore, Osaka, and Pari[illegible]

Cheapest in Colliers' survey, with e[illegible]fective rents of $9.42 to $11.04 per s[illegible] ft., are Edmonton and Calgary, Alt[illegible] and Perth, Western Australia. America[illegible] downtown effective office rents rang[illegible] from a high of $32.73 in Washington to[illegible] low of $12.80 in Houston.

WIVES BRING HOME THE BACON

Men are no longer the mainstay

Not too many decades ago, a mar[illegible] capability as a breadwinner was [illegible] prime consideration for women sizi[illegible] up potential husbands. Today, men a[illegible] increasingly apt to apply that san[illegible] yardstick to future wives.

As a recent study by Aimée R. Dec[illegible]ter of the University of Wisconsin a[illegible] Pamela J. Smock of the University [illegible] Michigan shows, back in 1963 three o[illegible] of four husbands provided at least 70 [illegible] of a couple's earnings. By 1992, howeve[illegible] almost half of all marriages in whi[illegible] the wife was 18 to 44 and the husbar[illegible] was present were "co-provider" union[illegible] Each spouse contributed 31% to 69% [illegible] their joint earnings.

As a result, the average income [illegible] married couples rose substantially du[illegible]ing the three decades—from $35,000 [illegible] $50,000 (in 1992 dollars) for whites a[illegible] from $22,000 to $41,000 for blacks. Pos[illegible]ing the smallest gains were couples [illegible] traditional marriages, where only t[illegible] husband brings home the bacon.

In fact, by 1992 the wives contribute[illegible] an average of 36% in dual-earner fam[illegible]lies. And in 43% of such families, the[illegible] were the prime breadwinners—enablir[illegible] their households to match the incom[illegible] of couples in traditional marriages.

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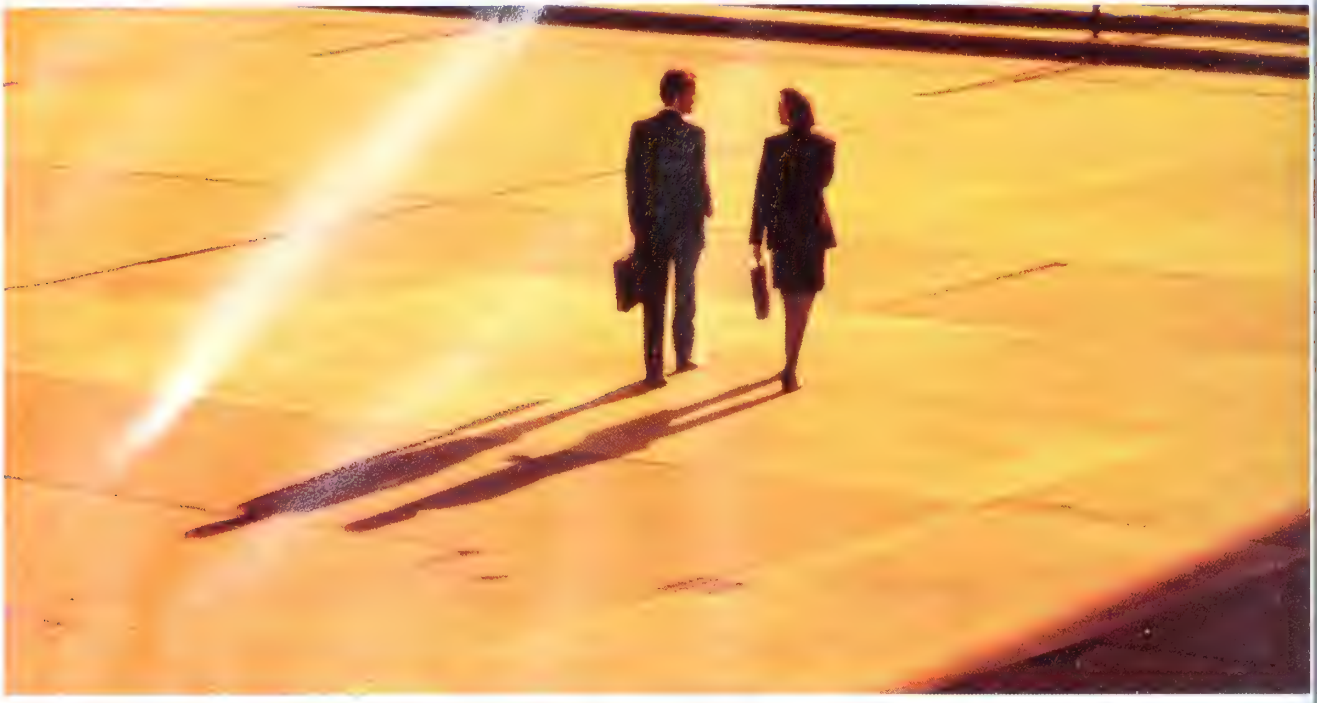

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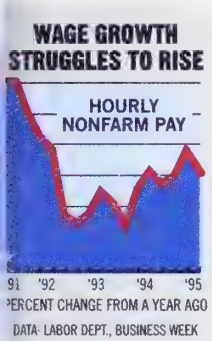
JAMES C. COOPER & KATHLEEN MADIGAN

HE FED MAY KEEP THE ECONOMY N CRUISE CONTROL

U.S. ECONOMY Policymakers at the Federal Reserve do not wander unin- ed into one another's offices—it's considered bad m. But nowadays when they meet by chance in the lways, the central bankers may well exchange some f-congratulatory small talk. After all, their desire slower economic growth is panning out. And the lat- price data show no threat from inflation.

ndeed, the U. S. may enjoy another year of having cake and eating it too. Growth is slowing, but it's l strong enough to generate jobs. At the same time, ation is barely cutting into buying power.



Of course, there are a few hazards in the outlook. The greater risk this year appears to be less growth rather than more growth. Although some regions will experience labor shortages, generally softer hiring in 1995 will reduce job-market pressures and temper union pay demands. So wage growth will remain modest (chart). And slower income wth will restrain consumer demand, still the key sec- of this economy.

nother risk: Flagging consumer spending and the den drop-off in exports to Mexico have pushed up entories sharply. Economists at Merrill Lynch & estimate that inventories, as tallied in the real ss domestic product, grew by some $80 billion last rter, perhaps the largest increase in postwar histo- That means real GDP grew closer to 3% than 2%, final demand was weak, setting the stage for output s—and slower growth—later on.

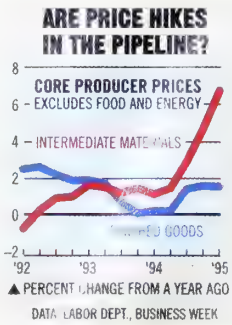
E FED IS LIKELY to tolerate GDP growth from ess inventories because it is not inflationary. More- r, other data suggest the Fed's 15-month strategy of ng interest rates is succeeding. Nonfarm payrolls w by 203,000 in March, far below the 286,000 pace in previous six months, and consumer prices rose % in March, while producer prices were unchanged. he March data, with their implications for weaker istrial output, income growth, and consumer spend- tilt the odds toward no action by the Fed at its t policy meeting on May 23. If so, that would be the time since the Fed began hiking rates in February, 4, that the central bank has held two consecutive tings without raising rates.

Lurking in the background, however, is the imploding dollar. The Bank of Japan and the German Bundesbank continue to attempt to shore up the dollar against their respective currencies. And while the Fed will not raise rates solely to strengthen the U. S. currency, the central bank must be concerned about the inflation implications of a sagging dollar.

A weak currency lifts the prices of imports. And with foreign-made items commanding one-quarter of U. S. goods demand, a broad rise in import prices could have a significant impact on U. S. inflation. In February, the prices of nonpetroleum imports were up 4.4% from a year ago, a sharp acceleration from 1.8% in February, 1994. Monthly data go back only to 1990, but quarterly numbers suggest that import inflation is running at its fastest rate in more than six years.

BY CONTRAST, the overall consumer price index was up only 2.9% in the year ended in March. Excluding food and energy, the core CPI in March rose 0.3% from February and is up just 3% from a year ago.

Nearly all categories posted modest increases in March. Apparel prices were flat and are down from a year ago. Food prices were also tame, but the California floods may push up fruit and vegetable prices this spring. And medical costs remained moderate. Inflation for 1995 seems unlikely to exceed 3.5%.



The flat reading in the producer price index, after increases of 0.3% in each of the prior three months, is another sign that price pressures remain scant. Prices of food and energy fell last month, but even excluding those two components, the core PPI was up just 0.1%. In the first quarter, prices for both the total PPI and the core index were up by about 1.7% from a year ago.

Can such good behavior last? Probably. The only sign of growing pressure comes from intermediate materials and supplies used to make finished goods (chart). Intermediate goods prices rose 0.3% in March, with core prices up 0.4%, after 1% advances in January and February. The big price jumps have been in plastics, paperboard, and construction materials.

Over the past year, prices of core materials have risen 6.8%—far eclipsing the inflation pace of finished goods. But that's because few manufacturers have been

ERIC HOFFMANN/BW

able to pass along those steep markups. And if demand continues to moderate, they might not be able to do so in 1995, either, at least not in the U. S.

ONE OF THE KEY SIGNS for demand is job growth. Until now, the employment data did not signal much of an economic slowdown. The March report changes that.

In fact, the numbers show that job gains began to slow a year ago (chart). Businesses added an average of 239,000 jobs per month last quarter, way below the 309,000 in the fourth quarter. The jobless rate was basically flat last month, edging up to 5.5% from 5.4%.

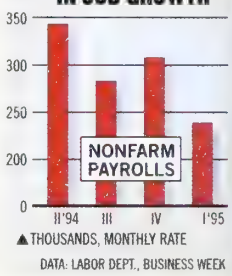
Other tidbits in the report suggest that the slowdown is not a one-shot deal. Only 55.6% of industries added workers last month, the fewest in 1½ years. The workweek was unchanged at 34.5 hours, while a fall in overtime led to a 12-minute drop in the factory week. Less work time usually precedes less hiring.

The mix of hiring also suggests job growth is slowing. Construction payrolls rose 58,000. But March's warm weather helped hiring in the building sector, so the increase probably won't be repeated in coming months. Manufacturing jobs fell 4,000 in March, and slots at temporary-help agencies declined by a large 35,000—the first drop in three years.

The declines in both factory jobs and hours suggest industrial production struggled in March. That weakness reflects the buildup in inventories in the first two months of last quarter. In January and February, inventories in manufacturing and wholesale trade grew at the fastest two-month pace in 10½ years. Drawing down those stockpiles will keep future gains in industrial production—and jobs—to a minimum.

Slack job markets also dim the prospects for higher wages. The average nonfarm wage rose 0.3% in March to $11.33 an hour. In the year ended in the first quarter, wages grew 2.6%, below the pace of inflation.

Of course, modest wage gains keep the inflation outlook bright. That's crucial because data on output growth and total hours worked in the economy suggest productivity rose very little last quarter. So improved productivity did not offset wage gains and temper unit labor costs.

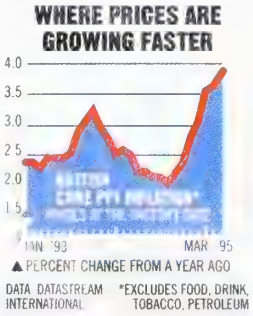


However, without income growth, consumers cannot lift their spending. And household purchases remain the economy's major power. Balancing the forces of economic growth and inflation always has made the Fed's job tough. But right now, the central bank seems to have the right combination in place. That's why policymakers may just stand pat on policy for a while, keep their fingers crossed on the dollar, and watch how 1995 unfolds.

BRITAIN

A LESS STERLING FIRST QUARTER

The British economy is flashing slowdown signals. Factory output, retail sales, and housing starts suggest that first-quarter economic growth will barely reach 1%, after posting a 3.8% advance in 1994. However, while last quarter's lull suggests a cooler economy this year, analysts see growth rebounding this quarter—and another interest-rate hike seems likely by midyear.



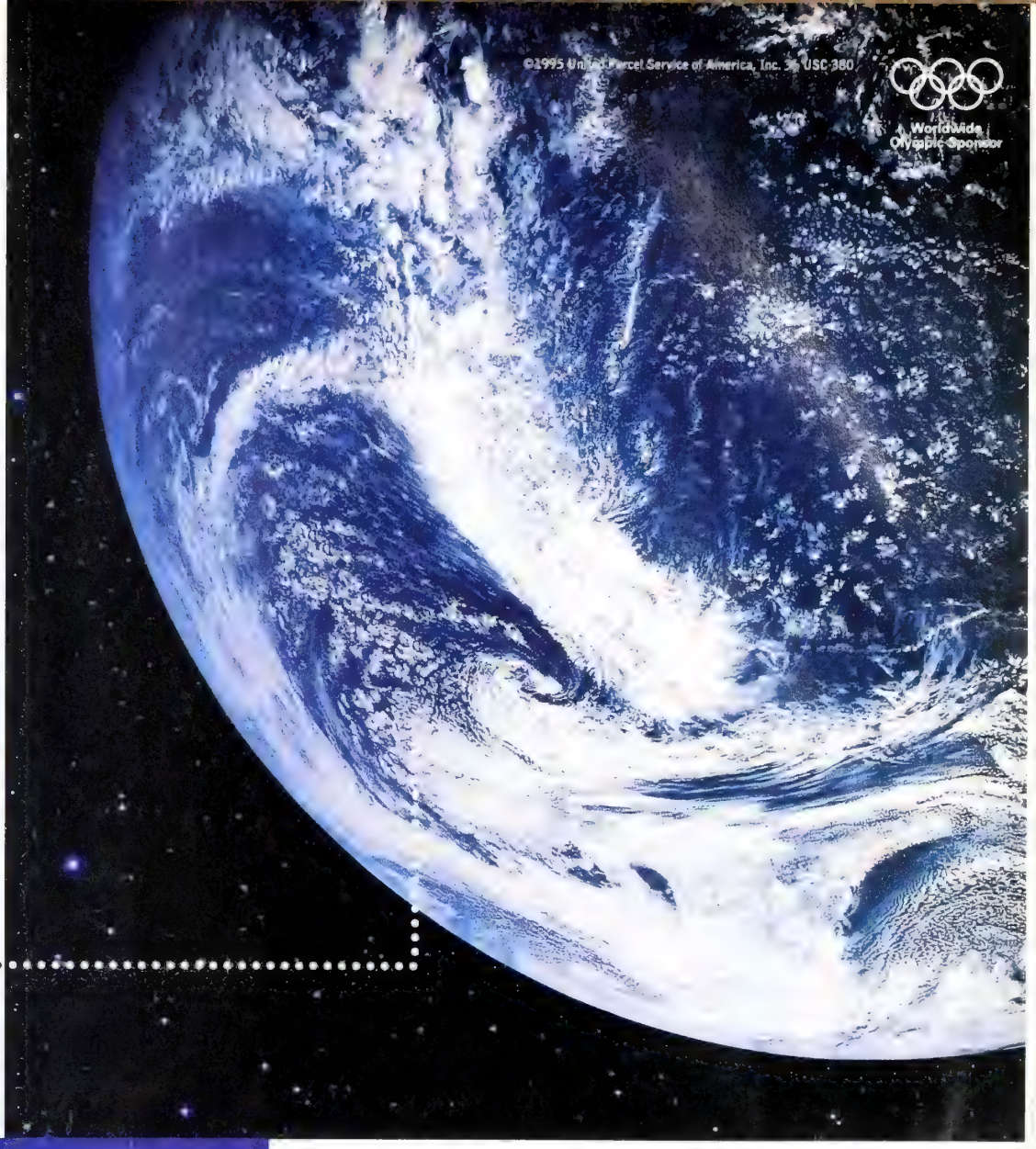
The January and February weakness in industrial production, which puts first-quarter output below the fourth quarter, looks temporary, given the vibrant tone of the latest Confederation of British Industry survey. Exports still power the expansion, while tight capacity and strong profits are boosting equipment spending. Sterling's recent decline will add more fuel to exports.

But while Corporate Britain bubbles, Household Britain remains flat. Average earnings growth, at a 3.5% annual rate in February, is modest. Higher taxes and interest rates have depressed incomes and confidence. Labor-market improvement clearly slowed in March, as unemployment fell by only 20,500. And the Apr. 6 tax hikes, which cut deductions on mortgage and marriage allowances, follow earlier hefty hikes.

A sour voter mood is hurting Prime Minister John Major's Conservative government, recently routed in Scottish local elections. Talk of tax cuts in the November budget is growing.

Still, the Treasury and the Bank of England remain committed to low inflation. The overall economy still has some slack, but price pressures are rising. Core producer prices at the factory gate in March were up 3.9% from a year ago, the fastest in 3½ years. Unit labor costs grew faster in February. And while retailers are squeezing margins to hold down prices, retail inflation has picked up, fed by mortgage costs and taxes.

A weak-looking first quarter may not prevent a fourth rise since September in base rates, from 6.75%, as the monetary authorities stick to their 1996 goal of inflation below 2.5%. But it just might put a fifth hike on hold.



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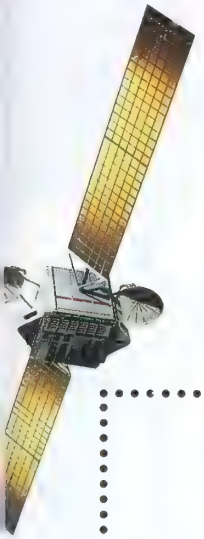

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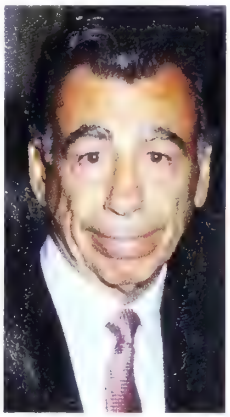
Can Kerkorian and Iacocca really pull off their bombshell bid?

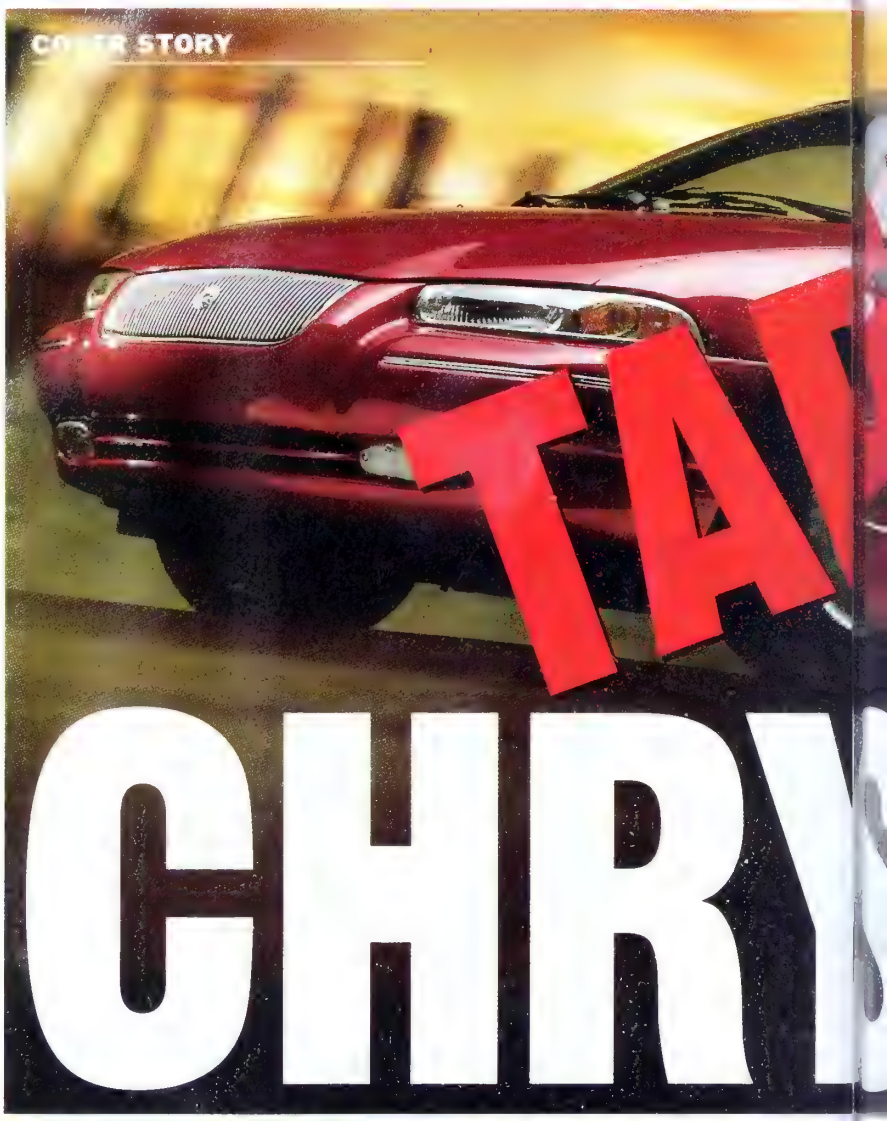
For Bob Eaton, it was as if one of his company's sleek new sedans had just blown a gasket going into a fast curve.

Chrysler Corp.'s stocky chairman was in New York, relaxing in the Chrysler suite at the tony Waldorf-Astoria hotel on the evening of Apr. 11 when a call came through from Kirk Kerkorian, the company's biggest shareholder. The 77-year-old investor announced that he and former Chrysler Chairman Lee A. Iacocca were planning to lead an astounding $20.5 billion effort to take over Detroit's No. 3 auto maker.

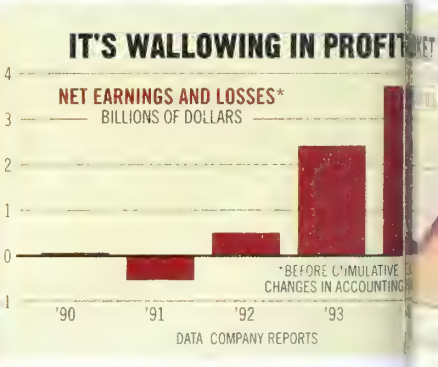


A stunned Eaton abruptly canceled a long-scheduled speech at the New York Auto Show. Instead, he hopped an early-morning flight to Detroit to huddle with his board and map strategy. Their eventual response: Chrysler Corp. is not for sale. Added Eaton in a statement: "We don't want to put Chrysler at risk. We've worked hard to build this company's financial strength."

"STRICTLY AN INVESTOR." Eaton wasn't the only one put off by the audacious gambit of Kerkorian and Iacocca. The pair say they will pay $55 a share for the 90% of Chrysler's 415 million shares they do not already own. Neither plans to increase his stake in the company. Rather, they hope to use $5.5 billion of Chrysler's own cash, plus $3 billion in new equity and $10.7 billion in bank loans and other borrowing to finance the deal. "If Kerkorian's got [financing], Chrysler is history," says veteran Wall Street arbitrageur George A. Kellner of Kellner, Dileo & Co. But Kellner and other arbs noted that no shred of specific financing plans was evident—no bank commitments or even one of the "highly confident" letters that 1980s-style raiders produced to reassure investors that they could line up money in the end.

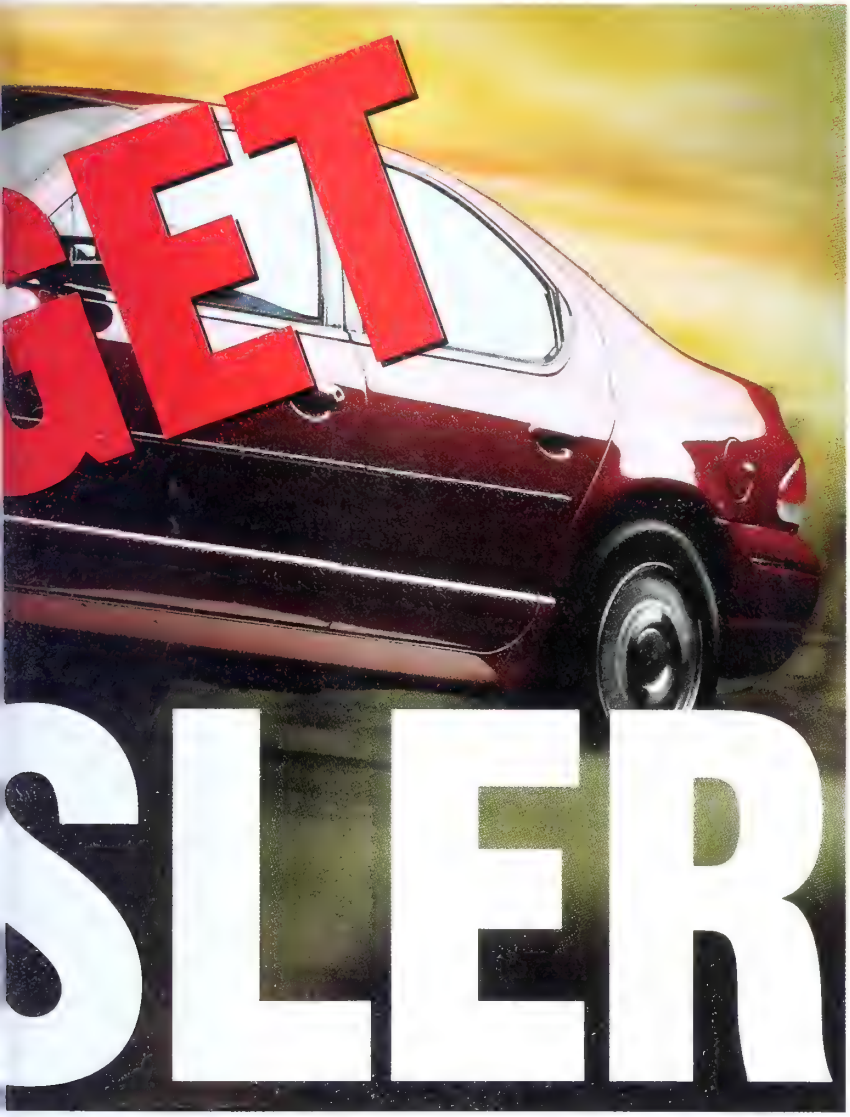


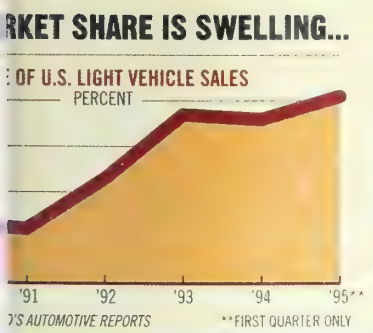
Why Chrysler Is Looking So Juicy

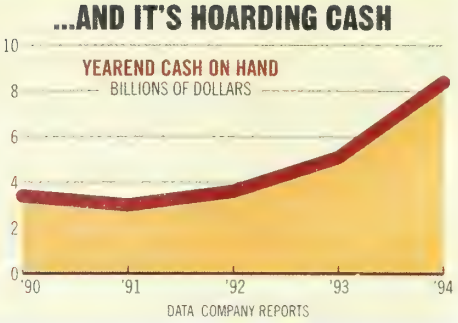


Of course, the Kerkorian announcement touched off a frenzy among Wall Street dealmakers. Kerkorian's Tracinda Corp. quickly hired Bear, Stearns & Co. as its adviser. Other bankers, meanwhile, scrambled to sign up Chrysler. Everyone's running around trying to work the numbers and figure out what to pitch, said the head of loan syndication at a major ban

Iacocca, who until lately had bee mainly dabbling in gambling inves ments, claims Kerkorian can "easily pull together financing for the deal ar contends that the whole thing can b done without impairing the auto make financial strength. Moreover, he say he and Kerkorian have no intention interfering with Eaton and the rest







rysler's management team. "I'm ictly an investor," Iacocca says. "I end to do nothing more than advise" company.

But everyone from arbs to big shareders to suppliers has questions about real motive behind the Kerkorian/occa bid. Chrysler's shares jumped %, to $49, on the news on Apr. 12—12% below Kerkorian's offering price. Wall Street and others are worried that the offer could end up saddling Chrysler with a huge debt burden—either from fending off Kerkorian or as part of the financing for his bid. "The whole thing lends itself to a sanity check," says one investment banker. Indeed, hours after Kerkorian made his offer, Standard & Poor's, Duff & Phelps, and other ratings agencies put Chrysler's debt on watch for a possible downgrade.

Key money managers are speculating that Kerkorian's actual goal may be to entice Chrysler to buy him out at a premium—a classic greenmail attempt. Kerkorian began accumulating Chrysler shares five years ago at an average of $12 each, when Chrysler was in deep financial trouble. Since last November, he has been actively kibitzing Chrysler management—suggesting strategic changes meant to drive up the company's stock price.

Why not simply sell his shares, and cash in now? Michael Bradley, a University of Michigan finance and law professor, notes that Kerkorian would face a huge capital-gains tax on such a move. Better to try to force Chrysler to cut him a special deal.

Such a scenario becomes immaterial if Kerkorian's offer sets off a bidding war for Chrysler. Potential buyers? Some analysts speculate that a foreign carmaker, looking for a huge leg up in the U.S. auto market, could step in with a higher bid.

There's a pretty good chance that Kerkorian's move could kick off a round of negotiating, bids, and counter-bids. Some Wall Street analysts believe that the company's expected $4 billion-plus in annual earnings during the next several years makes it worth up to twice what Kerkorian is offering. And if the company's board decides to institute a poison-pill provision, the cost of a takeover would almost certainly double.

SLUMP AHEAD? Kerkorian's biggest risk could be that his bid will prevail. With his iffy financing, Kerkorian could be forced to badly deplete Chrysler's cash in order to complete the deal. The resulting debt burden on the company is an unsettling prospect, since car and truck sales so far this year have slumped 4% and auto makers have dialed back sales forecasts. If the industry goes into one of its cyclical slumps in 1996 or 1997 (page 37), Chrysler will need big money to survive: It reduced its cash cushion by $4 billion during the steep slump of the early 1990s. Eaton argues that the company needs a hoard of at least $7.5 billion to weather the next slump—about what it had on hand at the end of 1994 (charts). But Ker-

CHRYSLER CEO EATON: *Iacocca says the top brass would be left in place*

Sure, Kerkorian is out to cut a deal, say skeptics--a greenmail deal. There is no question that for months he has been agitating for Eaton to push the company's stock price up

korian and Iacocca contend that $2.5 billion would be enough, if augmented by the company's untouched $2.5 billion credit line.

Even if car sales hold steady, a buyout could badly drain Chrysler's cash. Kerkorian figures $10.7 billion in new debt would cost $1.1 billion in interest annually, at current rates. The $650 million Chrysler currently pays in dividends would cover part of the cost, and the tax write-off on interest payments would help, too. But the $2.5 billion or so in preferred stock Kerkorian figures to sell to a small group of unnamed investors would likely carry an additional dividend. And a significant increase in debt could cramp the company's financial flexibility. "You can cancel dividends," says a former top Chrysler executive. "Debt has to be paid."

Then there's the difficulty of rounding up the huge loa Kerkorian needs o make his deal Steve Miller, vi president of Lo Pricing Corp., a N York firm that tracks the loan mark figures Chrysler would have a hard ti corralling as much as $11 billion in ba loans. But if its credit rating remains BB or better—vs. A– for the comp ny's senior debt now—it "might be a to raise $5 billion to $7 billion in t syndicated bank-loan market," Mil figures. That assumes, of course, th Kerkorian & Co. can soothe the jitte at nervous debt-rating agencies.

OVERSEAS KNIGHT. Finding a whi knight partner would help. Alex Yen nidjian, a top Kerkorian aide at Trac da, says Kerkorian has pulled togethe "short list" of companies he intends contact about joining the deal. Althou Yemenidjian wouldn't name any of the there are potential synergies betwe Chrysler and a European company su as PSA, the French parent of Peuge and Citroën. Other European carmake including Volkswagen, Renault, and Fi already have said they are unlikely get involved in the takeover.

Then there's Japan. Analysts, thou believe a hookup with a Japanese co pany such as longtime Chrysler pa ner Mitsubishi Motors Corp. or Hon Motor Co. is less likely, given curren and economic troubles at home. On t other hand, the dollar's prolonged c lapse against the yen would make su a deal dirt-cheap for a Japanese comp ny. Another possibility, says Dean W ter Reynolds Inc. analyst Ronald Glantz, is that Kerkorian could ra cash by selling parts of Chrysler to a val. "I don't know if anyone wants own Chrysler, but they certainly wa

Critical Challenges

QUALITY GLITCHES

Chrysler continues to be dogged by defects. *Consumer Reports* gives its Jeep Grand Cherokee a reliability rating of "much worse than average" and judges such key models as the Dodge Intrepid and the Dodge Caravan as "worse than average."

NEW MODELS UNDER FIRE

Chrysler is just unveiling a revamped minivan. But the product, No. 1 in the market, faces tough competition from Ford's lineup of vans. And fresh versions of Chrysler's LH family sedans and Dakota pickups, due in the 1998 model year, will have to sell against souped-up rivals.

CAR MARKET SLUMP

Softening auto sales have raised worries that the market is heading into a downturn. Chrysler and other auto makers are susceptible to big losses during a recession, when high fixed-costs siphon profits and cash flow needed for new-product development shrinks.

NO OVERSEAS BOOST

As European economies recover, Ford and GM should get a boost. But Chrysler has only minimal manufacturing and sales operations abroad, making it more vulnerable than its rivals if the U.S. economy heads into a slowdown.

eep, and they certainly want minivans," Glantz says.

Although the risks of taking Chrysler rivate are high, Iacocca and Kerkorian tand to win handsomely if they can ull it off. If auto sales level out at the urrent pace of 15.1 million vehicles a ear and stay there for the next couple f years, the duo might be able to triple heir investment in three to five years, figures analyst Theodore Shasta of Loomis, Sayles & Co., a big Chrysler shareholder. That's because the company's high-margin Jeeps and minivans probably will generate at least $2 billion in free cash flow annually for several years—even after $4 billion annually in planned capital spending.

Chrysler likely will put up a strong fight to remain independent. In December, 1994, right after Kerkorian announced a wish to increase his Chrysler stake above 10%, the company's board reaffirmed a poison-pill provision designed to thwart just such hostile bids. It kicks in when a shareholder moves to take over more than 15% of outstanding shares. It allows other shareholders to acquire additional Chrysler stock at a reduced rate and dramatically raises the

WHY ARE CAR STOCKS SELLING AT CLUNKER PRICES?

Plenty of investors fume when they think Wall Street isn't giving the stocks they own a fair shake. But few have the clout—or checkbook—of a Kirk Kerkorian when it comes to doing something about it.

On Apr. 11, the day before Kerkorian's $20.5 billion bid, Chrysler Corp.'s stock closed at 39¾—just four times Wall Street's 1995 earnings estimate of $9.50 a share. At the same time, the Standard & Poor's 500-stock index was trading at practically 17 times earnings. "I cannot tell you why Chrysler is trading at four times earnings," says Alex Yemenidjian, an executive at Kerkorian's Tracinda Corp. "But we propose to put our money where our mouth is. This undervaluation gives us an opportunity to acquire the company without any danger."

CLOSING THE GAP. By the same measure, all of Motown is a bargain—even as carmakers' profits hit record levels. Ford Motor Co., at 27, trades at about five times its projected earnings of $5.50 a share. General Motors Corp., at 44, has a price-earnings ratio of six, based on forecasts of $7.25 per share. Why? Burned investors still remember GM's $15 billion in North American losses from 1991 to 1993, not to mention Chrysler's second brush with oblivion in those years. And the more bearish worry that softening auto sales in the first quarter signal the beginning of the end of the boom.

But many others on Wall Street, while paring earlier bullish sales forecasts, still see several more strong years for Detroit—equal at least to last year, when U. S. car sales soared to 15.1 million units. And the next downturn, when it arrives in 1997 or 1998, will be different, they argue. This time, Detroit has been playing the hardworking ant instead of the spendthrift grasshopper: no crazy diversifications into aerospace or savings and loans, lots of cash stored away for rainy days, and continued cost-cutting pressures to keep lean.

To boot, the Big Three virtually have closed the quality gap with the Japanese, who are struggling with yen-induced problems of their own. And Detroit has a lock on the fastest-growing segment of the car market: light trucks, which includes minivans and sport-utility vehicles. "The market doesn't fully recognize how much the competitive balance has tipped back in favor of the domestics," says Theodore Shasta, auto analyst at Loomis, Sayles & Co., a big owner of Big Three shares. "The domestic manufacturers are as strong as they have been in 30 years."

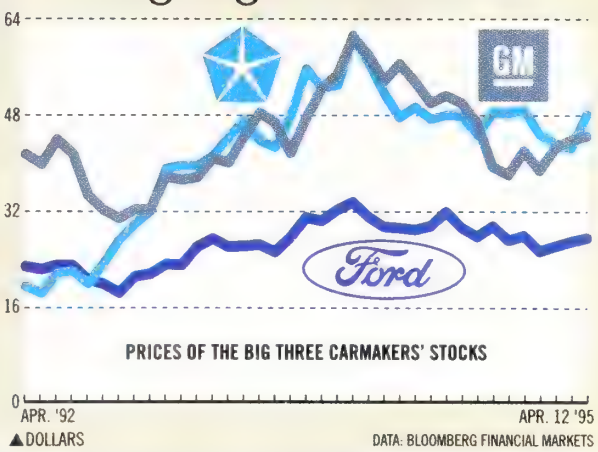
Kerkorian's move on Chrysler could have some spillover effects on GM and Ford shares. Shasta estimates that Ford could rise to 30, and GM to about 50, as investors figure that savvy player Kerkorian is right about auto stocks' valuations. And if Kerkorian does nab Chrysler, the buyout will leave investors with some spare cash. "If you suck $20 billion out of Chrysler and put it back in the hands of investors, some of it goes into Ford and GM," Shasta reasons. The two bigger car companies fetch slightly higher multiples than Chrysler to begin with, largely because they have much larger operations overseas—the better to take advantage of Europe's emergence from recession and blazing markets in countries such as Brazil.

TOO ROSY? Don't look for anything approaching the $9.50-a-share pop that Chrysler shares enjoyed on Apr. 12, though. "I don't think you could make a case for either General Motors or Ford being takeover candidates," says auto analyst David B. Healy. GM, with a market capitalization of $33 billion, is simply too gargantuan to take over—and its fitful struggles to remake itself are still likely to scare off potential suitors. Ford, with its $28 billion market value, is a behemoth, too—and the Ford family's control of a 40% voting stake is an additional deterrent.

Indeed, there's plenty of pessimism keeping car-company stocks close to earth. A manager of a major Boston mutual fund who has been selling auto stocks, including some of his large Chrysler holdings, thinks expectations for the industry still are too rosy. "The cycle is going to be much softer than expected," he says. This manager seized on the Kerkorian-induced market euphoria to get rid of more Chrysler stock. Other nonbelievers certainly will follow.

By Kathleen Kerwin in Detroit

Zig zags in Detroit



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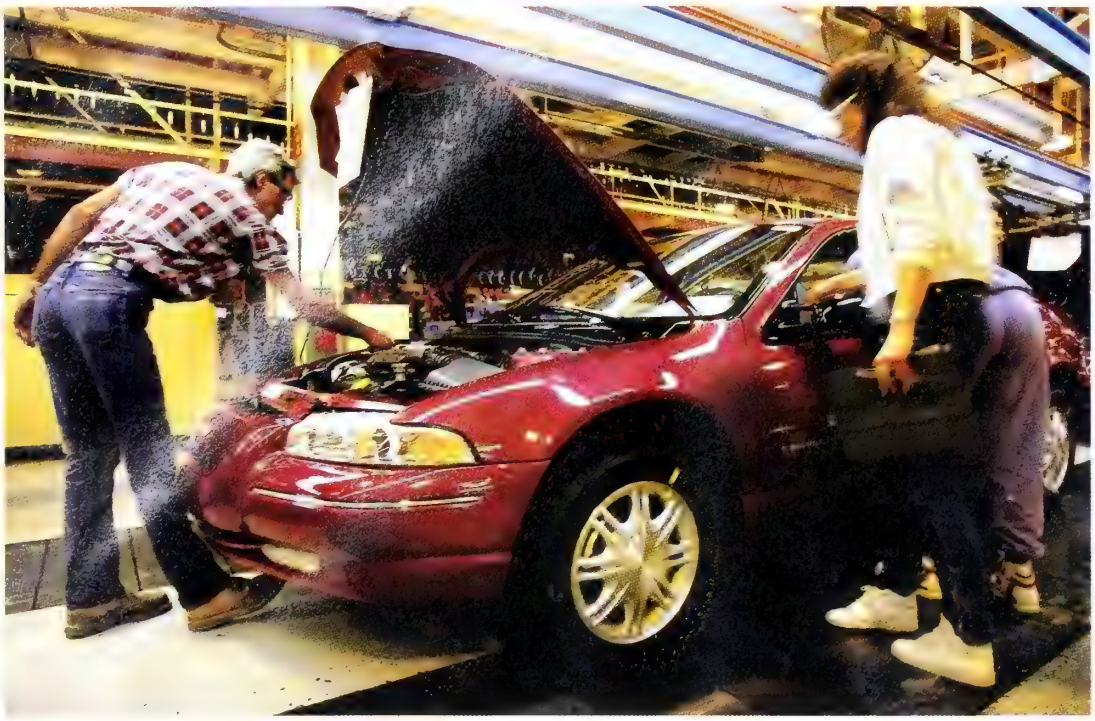

BUILDING A CIRRUS *The Plymouth is one of a string of new models*

The audacity of the bid for Chrysler was matched only by the paucity of detail about where the cash to do the deal would come from. Still, says one Wall Street arb, "If Kerkorian's got [financing], Chrysler is history"

cost of a takeover. Kerkorian has said in the past that the poison-pill provision is illegal and could be overturned in court. Yemenidjian maintains no court challenge is imminent. But if one materializes, Chrysler could tie up the matter for weeks or months while it looks for a white knight or strengthens other defensive measures.

For Chrysler, all this uncertainty comes when it still has a lot to prove. From near-collapse in the early 1990s, it has become a highly profitable cash machine. While continuing to dominate the minivan market, it has spun out a raft of new models such as the Jeep Grand Cherokee, the compact Neon, and a line of nifty sedans that includes the Chrysler Concorde and Eagle Vision.

But big doubts remain as to whether Eaton can maintain Chrysler's success over the long haul. Despite a drive to improve quality launched by the CEO last year, key models continue to be plagued by glitches (table, page 36). And the company will have to spend big money revamping and launching key models. Even ambitious plans that include a new $750 million V-8 engine factory in Detroit and numerous new and redesigned models by the 1998 model year will leave it vulnerable in some areas. The hot-selling Grand Cherokee, for instance, isn't scheduled for a redesign until the 1999 model year. Meanwhile, veteran President Robert A. Lutz, who has played a pivotal role in the company's comeback, is scheduled to retire in 1996.

NERVOUS NELLIES. Some of Chrysler's components suppliers are already nervous about the company's prospects. As part of its strategy, notes one, Chrysler has asked key suppliers to take on more of the burden of its new-product development—including paying more of the costs of tooling and design work. He attributes this, in part, to tight capital. "If they're constrained further, no doubt they'll ask us to take on more, and I'm not sure the supplier community can handle that." Frets this supplier: "At what point will this undermine our ability to finance growth?"

Chrysler's already restive labor unions aren't happy either. Canadian Auto Workers President Buzz Hargrove says the bid makes him "mad as hell." His opinion is importar Chrysler makes i LH sedans at a pla in Bramalea, Or Meanwhile, in ear April, the Unit Auto Workers stru a key transmissi plant in Kokom Ind.—a signal th the union is alread chafing at Chrysle cost-cutting effort Now, says Hargrov "This move by spe ulators will not cr ate jobs, it will n produce useful pro ucts, but it will ris diverting [desig and research] mon out of Chrysler."

How will this de turn out? Many an lysts figure Kerk rian and Iacocca w come out ahead, matter what ha pens. If the de were to go at $ per share, Kerk rian, for one, wou net a profit of $1.3 billion on his million shares. And for Iacocca, t takeover bid is sweet reveng Chrysler's board forced him out of t CEO job in December, 1992, arguing was time for fresh blood in the comp ny's top ranks. He was eased out d spite vocal opposition from his old p Kerkorian (page 39).

Some analysts already see the de as ushering in a new period of 1980 style hostile takeovers. It's also a war ing for manufacturers that hope to bui up cash to see them through the ne recession. In an era of activist shar holders, "Kerkorian's saying either y do something to enhance the value these shares, or I'll do it myself," sa veteran arb Guy P. Wyser-Pratte Wyser-Pratte & Co.

For Bob Eaton, the Kerkorian/Iacoc bombshell is a crystal-clear warning th he will have to take drastic actic soon—no matter which way this de turns out.

By David Woodruff, with Jeffrey M Loderman and Leah Nathans Spiro, New York, Kathleen Kerwin and Jam B. Treece in Detroit, and bureau repor

KIRK AND LEE: SEPTUAGENARIANS AT THE GATE

Their friendship began five years ago at a Florida racetrack. Over lunch arranged by investment bankers, the two dickered over private planes and a movie studio. Billionaire investor Kirk Kerkorian couldn't persuade then-Chairman Lee A. Iacocca to sell him Chrysler Corp.'s Gulfstream Aerospace Technologies unit. And Iacocca wouldn't bite at Kerkorian's offer to sell a small stake in Metro-Goldwyn-Mayer Inc.

No deal—then. But something clicked between Kerkorian, the son of an Armenian fruit farmer, and Iacocca, the offspring of an Italian immigrant. "They talked the same language," recalls Alex Yemenidjian, a top executive at Kerkorian's Tracinda Corp. "And Kirk trusts his instincts a great deal."

OLD PALS. Enough by now for Kerkorian, 77, to enlist Iacocca, 70, in his $20.5 billion bid for Chrysler. The partnership isn't new, though: Shortly after that inconclusive 1989 lunch, the Las Vegas investor plunked down $272 million for 9.8% of Chrysler. In 1992, after a distraught Iacocca complained during a trip to the Barcelona Olympics that he was being forced out as Chrysler's chairman, Kerkorian turned friend once more. In a sharply worded letter, he urged the auto maker's directors to rethink their decision to push a reluctant Iacocca into retirement—later threatening to seek a board seat if they did not reconsider.

Will these two septuagenarians actually wage war again with Chrysler's board? Those who know him say Kerkorian, a courtly, painfully shy man, would only reluctantly wage a hostile takeover—even if pushed by the more volatile Iacocca. Indeed, Kerkorian backed down from his 1992 threat after meeting with a solicitous Robert J. Eaton, then Chrysler's chairman-designate, who wowed his biggest shareholder with glimpses of new models and plans for future cost-cutting. The "interests of the shareholders are being well represented" by the board, Kerkorian said in an ensuing statement. Chrysler also promised to discuss strategy with him.

Kerkorian hasn't always avoided confrontation. After accumulating 30% of Western Airlines, he demanded three seats on the carrier's board in 1972, eventually forcing out its chairman. But compromise is more his style: In 1981, he signed a 10-year standstill agreement that averted a takeover of Columbia Pictures. Later in the year, after quietly approaching Chris-Craft Industries Chairman Herbert J. Siegel to buy that company's 22% stake in Twentieth Century Fox Inc., he retreated when investor Marvin Davis offered $700 million for the film studio.

Discovering value is what Kerkorian has done best. He founded Trans International and turned it into a thriving regional airline, then used the sale proceeds in 1967 to enter the hotel business. He built the International Hotel in Las Vegas in 1968, then bought the MGM studio in 1969. He kept the MGM name, slapping it on his new Las Vegas casino, the MGM Grand, in 1974. The rest he sold off—Ted Turner bought MGM's library in 1986, and Giancarlo Perretti took other assets in 1990—for a total of more than $2 billion. His 74% stake in MGM Grand is worth over $1 billion now; his 10% of Chrysler, about $2 billion.

These days, Kerkorian has his hands full with MGM Grand, a $742 million company in the midst of a major expansion. Since 1993, Iacocca has sat on the MGM Grand board. The two friends, who often jet together aboard Kerkorian's private 727 from their Beverly Hills homes to the Vegas tables, have grown closer. Associates say Kerkorian, divorced himself, consoled Iacocca during his recent divorce from his third wife, Darrien. Kerkorian also contributed to a diabetes research fund Iacocca established in memory of his first wife, Mary, who died of the disease. Now their friendship has returned to business in a big way: The two could be buying back the company Iacocca never really wanted to leave.

By Ronald Grover in Los Angeles

A Work in Progress

Seventy-seven-year old Kirk Kerkorian made his first fortune in Las Vegas in the '60s (photo) and his second in Hollywood during the '70s. Now, the reclusive billionaire has made his move on Detroit:

DEC. 14, 1990 Kerkorian's Tracinda Corp. announces it holds 22 million Chrysler shares, a 9.8% stake. Chrysler responds by tightening its "poison pill" defense.

OCT. 10, 1991 Tracinda buys 6 million more shares.

AUG. 6, 1992 Kerkorian requests a meeting with Chrysler's directors. After discussions with the board, he withdraws his request for a board seat.

FEB. 5, 1993 Tracinda buys an additional 4 million shares.

NOV. 14, 1994 Kerkorian seeks permission to increase his stake to 15%. In a letter to directors, he details specific steps to revitalize Chrysler's stock. Two weeks later, the company announces a 60% dividend hike and a $1 billion stock buyback.

DEC. 29, 1994 Tracinda reports purchases of another 4 million shares, bringing Kerkorian's interest to 10%.

APR. 12, 1995 Tracinda announces a $20.5 billion bid for the 90% of Chrysler it doesn't already own.

AP/WIDE WORLD/LOS ANGELES TIMES

BUREAUCRACIES

THE FDA: NO HEROIC MEASURES REQUIRED

Suddenly, bipartisan consensus

Just a few weeks ago, the Food & Drug Administration was threatened by a nasty, partisan struggle over its future. Republicans and their allies at conservative think tanks charged that the agency was killing people—to say nothing of jobs—by holding up approvals of lifesaving products. Democrats and consumer groups, in turn, blasted the critics' proposals to overhaul the agency. Their plans would "tear the fabric of the world's safest and most effective health-care system," declared Representative Ron Wyden (D-Ore.).

But instead of gearing up for an explosive confrontation, the two sides seem to be headed toward a consensus. "There's been a sea change," says Carl B. Feldbaum, president of the Biotechnology Industry Organization (BIO), a trade group. Instead of the right's radical proposals to relax the agency's high standards for drug approvals, Congress is likely to order a streamlining of many FDA procedures. That will mean farming out product reviews to outside experts, relaxing bans on exports of non-FDA-approved drugs and devices, and exempting stethoscopes and other low-risk medical devices from lengthy reviews (table). All of this would make life easier—and more lucrative—for food, drug, and medical-device companies.

HIDEBOUND. The shift away from confrontation stems from a mix of political expediency and the recognition on both sides that the issues are more complicated than they seemed. Democrats, for instance, are starting to acknowledge that parts of the agency are hidebound. And conservatives learned to their chagrin that they had accused the FDA of failing to approve products, such as a pump for cardiopulmonary resuscitation, that will have little benefit. What's more, companies told both sides that industry, in general, wouldn't sign on to their more radical schemes for gutting the agency—such as allowing many drugs to be sold without FDA review. "Their early shots were poorly aimed—and in many cases backfired," says a top FDA official.

Rx FOR THE FDA

Reforms that the Food & Drug Administration may implement:

FARM OUT some product reviews to outside experts, speeding approvals

ALLOW EXPORT of some drugs and devices not approved for sale in the U.S.

EXEMPT LOW-RISK medical devices and routine changes in drug manufacturing processes from FDA reviews

SPEND LESS TIME reviewing applications to test drugs, allowing therapies to get into clinical trials faster and freeing up the agency for actual product approvals

LOOSEN TIGHT CONTROLS on advertising unapproved uses of products already on the market

Now, much to the surprise of the GOP, the Democrats are seizing the initiative. At an Apr. 6 hearing, for example, Senator Barbara A. Mikulski (D-Md.) warned FDA Commissioner David Kessler that without more progress cutting approval time, "Congress is going to roll right over you." The same day, the White House, led by Vice-President Al Gore, unveiled a package reforms that conservatives admit are step in the right direction. Wyden also jumped in that week with far-reaching proposals that won industry plaudits.

The Democrats' proposals would eliminate two of the biotechnology industry's bugaboos: the requirement that full-scale manufacturing plants be built before drugs are approved, and the need to get approvals for small changes in manufacturing processes. They also would throw a bone to medical-device makers by exempting many more products from review and reducing export barriers. And reformers hope to speed drug development by making it easier to get promising treatments into clinical trials.

But the Administration and its allies won't go along if the GOP tries to weaken protections in such areas as safety and efficacy standards for new drugs. "The White House thinks the whole thing is about getting the junk on the bad guys and keeping them from doing worse things," explains one top FDA official.

NEW WRINKLES. Many details remain to be negotiated, of course. For instance, experts predict a major tussle over whether companies should be allowed more freedom to publicize unapproved uses for products already on the market. Such a change would give Johnson & Johnson, for example, more latitude to plug its Retin-A acne treatment as helpful in smoothing out wrinkles—something the company has gotten in trouble for in the past. Republicans also are miffed that Kessler is still spending money on an antitobacco investigation. One bit of GOP strategy that's still undecided: whether to push for a single major reform bill, which could be as tough to pull off as the Clinton Administration's failed health plan, or several smaller bills.

Whatever approach the GOP takes, the odds are good that the two sides can reach a compromise. Neither will be entirely happy. But some deft medicine nor surgery may be all that's needed to make the FDA more efficient—instead of the radical bypass operation some Republicans had been pushing for.

By John Carey in Washington

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COMMENTARY

By Michael J. Mandel

THE INFLATION HAWKS ARE FLYING BLIND

For two years, inflation worrywarts have been warning Americans that higher consumer prices were right around the corner. The reasons: Tight employment was supposed to drive up wages, while rising prices for raw materials such as copper, aluminum, and paper were sure to travel right through the inflation pipeline and push up the cost of consumer goods.

But guess what? The pipeline seems to have sprung a leak. Price numbers released by the Bureau of Labor Statistics on Apr. 11 and 12 simply show no acceleration of inflation. Consumer inflation, measured over the previous six months, is slowing (chart). Prices for finished producer goods—such as gasoline, apparel, machinery, and cars—were virtually flat in March, far below the expectations of the inflation pessimists. And real wages are falling as well. During the past year, real hourly wages for production workers have dropped by .3%. In manufacturing—the hottest sector of the economy—real wages have actually declined by .6%.

TOPPING OUT. It's starting to look as though inflation has peaked for this business cycle. The price index reported by the National Association of Purchasing Management has declined for three consecutive months now, after hitting a 15-year high in December. The unemployment rate rose slightly in March, as the economy showed signs of decelerating. Inflation in the cost of medical care, long intractable, is still at its lowest level in more than 20 years. Even the prices of industrial raw materials such as lumber and most metals are beginning to top out.

The only areas of the economy where prices are still accelerating are autos and housing—and even those traditional signposts of inflation are misleading. Prices for new cars have remained virtually flat during the past six months, despite a dollar that is plummeting against the Japanese yen, putting upward pressure on the cost of imports. Instead, the cost of private transportation is being driven higher by increasing prices for used cars and a surge in auto finance charges. Automobile manufacturers still have almost no power to raise their prices, and they will have even less ability to do so as the Federal Reserve Board's interest-rate hikes of the past year begin to bite. Housing markets, too, are weakening as mortgage rates slowly rise. That should restrain increases in home prices and rents in the months to come.

Where did the inflation pessimists go wrong? As economists often do, they allowed themselves to be seduced by physical analogies. The image of an "inflation pipeline," driven by the ubiquitous "inflation pressures" from higher raw material prices, is simple and appealingly clear. Unfortunately, it also is very misleading.

The reality: Inflation is not a pipeline. In an information economy, commodity prices are far less important than inflationary expectations, productivity gains, and growth in the money supply. In the past, companies have been able to pass price increases in raw materials through to their customers. No more. During the current business cycle, almost anyone trying to increase prices is meeting enormous resistance. But the lack of pricing power hasn't damaged companies' bottom lines. Instead, corporations have been able to generate record levels of profits by cutting jobs, boosting productivity and taking advantage of slow wage growth.

NO PAIN: *Contrary to pessimists' expectations, gas prices are virtually flat*

The Federal Reserve and Chairman Alan Greenspan should take a bow as well. Adjusted for inflation, the money supply, as measured by M2, fell by almost 2% over the past year. Indeed, it has been declining more or less consistently since 1988, representing the longest single stretch of falling real money in recent history. With money growth so low, it's nearly impossible for inflation to get a foothold.

If inflation has peaked, how low can it go from here? Think back a bit. In the early 1960s, before the Vietnam War caused the U. S. economy to overheat, inflation averaged less than a measly 1.5% annually. There's no reason why the U. S. can't reach that level again.

Economics Editor Mandel watches inflation from New York.

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LAWSUITS

TOBACCO'S SMOKING GUN?

A key ruling looms in the legal war against cigarette makers

It's D-Day in the increasingly heated world of tobacco litigation. Come Apr. 20, a circuit court judge in Palm Beach, Fla., will decide whether a 4,000-page stack of Brown & Williamson Tobacco Corp. internal documents will remain open for public consumption.

It has the makings of a landmark decision for tobacco's opponents. Plaintiffs' attorneys say the papers, first detailed in *The New York Times* last May, provide tantalizing support for their allegations that B&W quashed research—some of it decades old—proving the adverse health effects of smoking and the addictiveness of nicotine. The research could be critical evidence against cigarette makers in a host of high-stakes cases—most notably in Florida's attempt to win $1.4 billion from the industry to pay for smoking-related Medicaid claims.

STOLEN RECORDS? B&W already has lost one attempt to keep the controversial papers under wraps. On Apr. 3, lifting an earlier injunction, a Kentucky state judge deemed the documents "apparently part of the public domain." And a Mississippi judge is reviewing them for admissibility in a secondhand-smoke liability case pending there.

The longer the papers stay public, plaintiffs' attorneys reason, the less likely B&W will be able to keep their contents from juries. "At some point the court will think it's ridiculous that everyone except the jury can get to see these incriminating documents," says Richard A. Daynard, who represents plaintiffs in a New Orleans class action.

A decision not to seal the documents in Palm Beach won't automatically make them admissible as evidence in pending cases. B&W, which argues the records were stolen, will vehemently challenge their admission on the grounds that they are covered by attorney-client privilege. "We are taking every step necessary to preserve those rights," a spokesman says. It already has sued the University of California, several newspapers, and a law firm—each of which has obtained copies. But it may be too late: These documents may have strayed too far into the public domain to ever return.

By Maria Mallory in Atlanta

LIGHT UP HERE: *Special nooks for smokers*

NEW YORK

MARLBORO COUNTRY IT AIN'T

Will an antismoking law burn Big Apple eateries?

Patrick Ford mixes a scotch and water and surveys the crowd at Wollensky's Grill, a popular steakhouse and watering hole in midtown Manhattan. It's a little thin, even for a Monday night. But this is no ordinary Monday. It's Day One of New York City's Smoke-Free Air Act, which severely restricts smoking in the city's 13,000 or so restaurants. "Our policy is, it's against the law," says Ford, a Wollensky's bartender. "But I'm no policeman," he adds, as a customer lights up down the bar.

So begins one of the most closely watched experiments in smoking prohibition. After months of debate and fruitless lobbying by restaurants and tobacco interests, legislation passed by the New York City Council last December kicked in on Apr. 10. It imposes strict new bans on smoking in such public places as offices, stadiums, and bingo parlors. But in this epicurean city, it's the restaurant industry that has been the center of debate.

BELLWETHER. The Big Apple is not the first city to impose such restrictions: Since the mid-1980s, some 165 antismoking ordinances have passed nationwide. And New York's law is hardly one of the strictest: It exempts restaurants of under 35 seats and allows, under certain conditions, smoking in bars and enclosed rooms. But the law is seen by many as a bellwether. Says Clay Wolf, co-owner of the tony Markham restaurant: "People in other cities will pay attention if this ban really gets enforced."

Making New York's Smoke-Free Air Act actually work could be problematic. The ordinance is vaguely worded, and restaurant owners are interpreting it to suit their situations. "Two owners and two night managers have read and reread [the Act], and we still don't know what we will do," said Richard Schinenti, the exasperated manager of Cedar Tavern on the eve of the ban.

How the law will be enforced is not any clearer. Restaurants can be fined up to $1,000 for a single violation, but it probably will be left to customers to report infractions. And an informal survey of restaurants after the ban found plenty of patrons smoking happily.

MIXED MOOD. For now, indeed, the potential economic impact is hazy. Americans for Nonsmokers' Rights, a lobbying organization, cites a study published last year in the *American Journal of Public Health* that showed no impact on restaurant sales in 15 California and Colorado cities with smoke-free laws. But the industry-funded Tobacco Institute says that some municipalities, including Wake County, N. C., Northampton, Mass., and Novato County, Calif., have rescinded smoking bans in part because diners simply went to neighboring areas that allowed smoking.

At Wollensky's, the mood is mixed. "If I knew I couldn't relax and have a cigarette, I wouldn't come here," says regular Cindy Davis. Another patron disagrees. What to do? Cedar Tavern's Schinenti has an idea. Picking up an unused ashtray, he asks: "I wonder if we can serve escargots in these things?"

By Amy Cortese in New York

No Smoking Here

Areas regulating restaurant smoking

	PASSED
ASPEN, COLO.	1985
LOS ANGELES	1993
UTAH	1994
SAN FRANCISCO	JAN., 1995
MARYLAND	MARCH, 1995
NEW YORK	APRIL, 1995
FLORIDA	PENDING
VERMONT	PENDING

DATA AMERICANS FOR NONSMOKERS' RIGHTS

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EDITED BY KEITH H. HAMMONDS

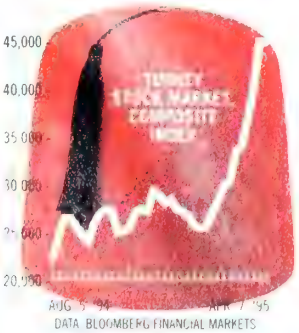
SENATOR SIMPSON ATTACKS THE AARP

THE AMERICAN ASSOCIATION of Retired Persons, with 33 million members, is a lobbying gorilla that politicians haven't dared to cross. Until now. Senate Social Security Subcommittee Chairman Alan Simpson (R-Wy.) intends to investigate $86 million in federal grants the AARP received last year. The group says the money was used for such services as tax counseling for the elderly and helping low-income seniors find subsidized employment. Nonetheless, Simpson calls the AARP "33 million people united by a love of airline discounts." Rather than speaking for the elderly, Simpson believes, the AARP is running a discount travel, insurance, and pharmaceutical business. Those sorts of activities, he notes, generate more than half the organization's income. Most surprising: Simpson is up for reelection in 1996.

CLOSING BELL

TURKEY: NO TURKEY

There's a lesson of sorts for Mexico in Turkey, home of the world's hottest stock market. This year, the Istanbul Stock Exchange's composite index has soared some 50% in dollar terms. Why? Since a Mexico-like currency meltdown in early 1994, Turkish companies have cut costs and targeted export markets in Europe and the Mediterranean. The result: Corporate profits should grow by about 25% in 1995. And inflation, 125% in 1994, is headed toward 70%.



THE WAIT IS OVER: KEMPER HAS A BUYER

WORN OUT BY 13 MONTHS OF repeatedly dashed hopes, Kemper's shareholders cheered when an investment partnership led by Zurich Insurance on Apr. 11 ended the mutual-fund and insurance company's tortuous search for a buyer. Zurich's $49.50-per-share deal is well below the bids Kemper commanded just a year ago. But after General Electric's $60 offer slipped through Kemper's fingers and Conseco's $67 deal collapsed amid financing woes, no one expected a rich payoff. Kemper stock had lolled at 40 for weeks before the Zurich deal sent it to 45½ by Apr. 12.

GOODYEAR'S MAN IN THE CATBIRD SEAT

SAM GIBARA, GOODYEAR'S NEW president, says he's "not even thinking" about his next job. Right. With his Apr. 10 appointment, Gibara, 55, became the strong favorite to take over as CEO of the $12 billion tiremaker when Chairman Stanley Gault retires at yearend—unless an outsider is named. A 29-year veteran of the company, most recently as chief of North American Tires, Gibara is known for making tough calls. In 1990, when General Motors' J. Ignacio López demanded price cuts and rival Michelin gave in, Egyptian-born Gibara, then Goodyear's European chief, sharply cut supplies to the auto maker. His latest move: a new U.S. sales organization that gives the company's regional managers more autonomy.

HEADLINER: JAMES H. CLARK

THE NET'S DREAM WEAVER

Call him the Internet's poster dad. In the year since he left Silicon Graphics, the computer maker he founded, 51-year-old James Clark has made his new startup the hottest company in cyberspace.

Clark's Netscape Communications makes software that helps customers browse and do business on the Net's World Wide Web. The technology has drawn a crowd of well-heeled fans: Publishers Hearst, Knight-Ridder, and Times Mirror—plus cable giant Tele-Communications and publishing software veteran Adobe Systems—announced on Apr. 7 that they will buy multimillion-dollar stakes in Netscape. And on Apr. 10, Netscape teamed up with America Online, CompuServe and Prodigy Services co-owner IBM to buy stakes in Terisa Systems, a startup forging standards for secure electronic commerce.

Clark's vision is to build the Web into the Info Superhighway that cable and phone companies still dream about. There will be sweet vindication if he succeeds: Clark left SGI after managers resisted his efforts to move faster into interactive entertainment.

By Robert D. Ho

LEVI'S GOES 'DRESSY CASUAL'

WHAT TO WEAR IN THIS AGE of "office casual"? Khakis and linens, mainly. On the strength of such duds, men's pants sales, excluding jeans, were up at least 11% in the U.S. last year—more than twice the rate of the broader apparel market. Reason enough for Levi Strauss to introduce a new brand of men's pants within a year. The line will be positioned higher than its wildly successful Dockers line, though still below traditional tailored dress slacks. "Dressy casual" is how one Levi's executive describes it.

PARCEL WARS: A BLOODY NEW ARENA

THIS RIVALRY IS STARTING TO make the Cola Wars look like a minor skirmish. Federal Express, matching United Parcel Service, will offer same-d delivery to customers willi to pay $159. The new offe ings, the latest in a tit-for-t marketing war, round out t overnight giants' service wi a promptness once offere only by couriers. Given t price tag, though, the sam day market is expected to l small. And any new revenu generated may ultimately l dwarfed by the big-ticket a vertising campaigns that t rivals are expected to laun to promote the service.

ET CETERA . . .

- Microsoft will invest $9 million in Wang Laborat ries, settling a suit.
- New owners at New York Plaza Hotel: Saudi Prince A waleed and Singapore's CDI
- United Airlines will retir 94 planes earlier than expec ed and may buy 50 new one
- Thomas Block, CEO and so of co-founder Henry, wi leave tax preparer H&R Bloc

Y OWEN ULLMANN

PLAYING THE CLASS CARD COULD GET THE DEMOCRATS TRUMPED

he ever-so-average working-class burgs of Pine Bluff, Ark., and Erie, Pa., have become key testing grounds for a Democratic counterattack on the GOP's Contract With merica. For a week beginning on Apr. 11, the two towns ıve been bombarded with TV ads that blast two contract gners—Representatives Jay Dickey (R-Ark.) and Phil Eng-h (R-Pa.)—for cutting school lunches and education "so e wealthy special interests could get a tax break."

The objective of the campaign, funded by the Democratic ongressional Campaign Committee, is to convince the 50% of e nation with family incomes of $20,000 to $60,000 that e GOP favors the rich over working iffs. If the ads sway swing voters, a na-onal rollout is planned to help the emocrats regain congressional major-and to hang on to the White House 1996.

There's only one hitch: Class-based peals usually fizzle. Recent polls find at voters identify more with Republi-n tax- and budget-cutting appeals than th Democratic carping that the well-to-will gain at the expense of the mass-"Middle-class voters are more worried at Democrats will take from them to lp the poor than that Republicans will take from them to lp the wealthy," says Michigan pollster Ed Sarpolus.

GINGRICH-BASHING: *Rally in New York*

INFUL CUTS. Playing the class card has dangers. It could re-nd Reagan Democrats of the redistributionist policies that ıde them flee the party. But Democrats are willing to run ıt risk because rich-bashing seems the only tactic that rs opposition to the Contract. Pollster Mark S. Mellman ims his surveys for House Minority Leader Richard A. phardt (D-Mo.) show concern that GOP cuts will hurt the ddle class. The problem, he adds, is that "we have not con-ced voters that the Democrats will help the middle class." And they never will, retort GOP strategists, who claim that class rhetoric resonates only among those making less than $25,000—a Democratic stronghold that accounts for 40% of America's families but less than one-third of voters. "The general public isn't falling for it," crows Republican National Committee Chairman Haley Barbour.

That view is shared by some centrist Democrats. They fear that the party—still dominated by liberals—is reverting to class-warfare rhetoric when voters expect proposals for downsizing government. "It makes the party look simple-minded and horribly out of sync," sighs Democratic adviser Ted Van Dyk, a former aide to Hubert Humphrey and George McGovern. "If we go with this next year, not only will we have a Republican President, but we'll have a veto-proof Republican Congress."

Foes of class-baiting include some White House economic advisers, too. Chief among them is Treasury Secretary Robert E. Rubin, a Wall Street millionaire who has urged Clinton to attack the GOP contract as bad policy for all. An example: trumpeting that education cuts hurt U. S. competitiveness. But the President's advisers see class-warfare as a winner. And Clinton clearly favored the class warriors when he asked a crowd on Apr. 8: "Do you want a tax cut for the wealthy or for the middle class?"

Such lines always draw a roar from the Democratic faithful. Trouble is, they're likely to ring hollow this summer, when the Democrats may agree to a budget compromise including scaled-back tax breaks for high-income Americans. By '96, the GOP is betting, voters will have long forgotten the Contract's details—they'll just remember that the GOP cut taxes and spending, while the Democrats resisted out of "fairness" concerns. That's why Republicans can't wait for Election Day—the ultimate test of appeals to class consciousness.

With Richard S. Dunham

CAPITAL WRAPUP

'OSTMARKS' ON E-MAIL

The U. S. Postal Service is making bid to become a big player in cyber-ace commerce. Later this year, the ost office plans to provide "post-arks" for E-mail. When dispatching ı E-mail message, a subscriber ould click an onscreen icon and the ost office would assure the recipient ıat the sender was authentic—based ı a preagreed code. Digital signature chnology has been around for years ıt has languished for lack of a cen-al authority to issue "keys." Oddly enough, the Postal Service is planning to use technology from RSA Data Security Inc. rather than the government's controversial digital-signature standard. Postal officials haven't determined a pricing system, but they're hoping the service will boost business, which has suffered from the growth of E-mail and fax.

FTC MEDICAL ALERT

▶ The planned merger of hospital giant Columbia/HCA Healthcare Corp. with HealthTrust Inc. may have hit a snag at the Federal Trade Commission. FTC sources say that correspondence between the two companies after the merger was announced last fall raises "troubling questions" about whether Columbia is trying to discourage competition in Florida. The note proposed deals that trustbusters could view as carving up the local market or freezing out a rival. A federal court on Mar. 30 disagreed and refused to block the merger. But the FTC will take a closer look before approving the marriage, which would produce a chain of 310 hospitals. Columbia remains confident of approval.

ALLAN TANNENBAUM/MSYGMA

TRADE

SHOWDOWN TIME FOR U.S.-JAPAN TRADE?

The Clintonites figure the super yen gives them the weapon to open Japan's market

They talked tough and rattled sabers. But every time officials in the Clinton Administration pushed Japan to open its markets to U.S. products, their hard-nosed strategy backfired. Mere hints of a trade war sent the dollar tumbling overseas and stocks into a tailspin on Wall Street. The result: Washington's record with Tokyo is replete with face-saving compromises and few results.

But now, President Clinton's trade negotiators are headed back for more. They are convinced the yen's rise against the dollar is being driven primarily by Japan's refusal to cut its $132 billion global accounts surplus. They're determined to exploit the strong yen by provoking an all-out confrontation. This time, U.S. Trade Representative Mickey Kantor swears his team is ready to risk adverse market reaction and "jump over the precipice."

HOT SELLERS. The current U.S. target: Japan's $37 billion surplus in autos and auto parts—which amounts to two-thirds of the U.S. trade deficit with Tokyo. With deadlocked talks set to resume on Apr. 17, Kantor is preparing an extensive list of options for retaliation if Japan's carmakers don't boost their purchases of U.S. parts. This time, the U.S. is weighing a reprisal once considered unthinkable: curtailing the special "foreign trade zones" created at Japanese car plants in Ohio, Kentucky, Tennessee, Indiana, and Illinois. The zones allow the Japanese plants to import components at half the usual duty from Asia for final assembly in the U.S. Such hot-selling vehicles as Nissan Motor Co.'s compact pickup truck and the sporty Mitsubishi Eclipse are produced there.

Any Administration move to crack down on the zones is sure to provoke a firestorm—not just with Japanese carmakers but with state governors and U.S. workers at the affected plants who fear their jobs would be jeopardized in a trade war. But one senior U.S. trade official says: "We have lots of differen options. The point we're making is, we' have no constraints upon us if this issu doesn't work itself out."

Angry Tokyo officials declare that i the U.S. plays hardball, they will go t the new World Trade Organization wit charges that the Administration is un fairly trying to manage trade in auto and auto parts. "We are at a crossroads and both sides are looking at each othe without any illusions," warns a Tokyo

egotiator. Yet the Clintonites e mounting a coordinated ef-rt: The Business Roundtable ill soon announce it supports e Administration's tactics. nd Detroit's Big Three have ned up the support of Sen-e Majority Leader Bob Dole -Kan.), the GOP Presidential ont-runner.

A trade showdown is al-ays dangerous. But the Clin-nites figure they have little lose. The dollar already has ummeted 16% against the n this year—to 83 yen on pr. 12—so the Administra-on trade negotiators figure ey can't be blamed for trig-ring the tailspin. Moreover, ith growing signs that the n is appreciating against oth-currencies—including the rman mark—the pressure is Japan to stimulate its economy or ake the trade concessions that Wash-gton has long sought.

Japanese officials are outraged by at they see as Washington's ploy to the dollar fall to reduce the $150 lion U.S. merchandise trade deficit. "I nt the United States to feel respon-le and make a clear stance to defend e dollar," says Japanese Finance Min-er Masayoshi Takemura.

F THE GROUND. The Clintonites deny at they're clever enough to master-nd the dollar's descent. But they like e lever that the greenback's fall has t in their hands. "The world's sec-l-largest economy has an obligation to en its markets," says Treasury Secre-y Robert E. Rubin. He will convey t message to Takemura on Apr. 15, e eve of an Asian-Pacific Economic operation meeting in Bali.

The way senior Administration offi-ls see it, the crisis involves not a indling dollar but a super yen. By r. 12, the greenback had stabilized inst other major currencies, even ng against the mark. U.S. stock and d markets are thriving, as investors clude that the American economy is ding for steady growth and low infla-n. And Japan's economy, with its fi-cial system floundering, can't get off ground.

The turbocharged yen is starting to ic Japan's exporters and trade offi-s, who've watched prices on their ducts soar. Japan's monetary officials e little leverage to change course. h short-term interest rates already ow as 1.75%, the Bank of Japan has e room to stimulate the economy or out troubled banks with more rate ing.

U.S. officials are preparing to tell Tokyo that if it can't spur the economy with rate cuts or tax relief, it'll have to start accepting more imports. "At some point, Japan will come to recognize the only way they can stem the yen's rise is to open their market," argues Robert Hormats, vice-chairman of Goldman Sachs International Ltd.

Enter the carmakers. The Big Three are mobilizing for a sales push. Ford Motor Co. has taken control of the Autorama distributorship in Japan and has targeted a 5% share of the Japanese market, bolstered by sales of vehicles made by Mazda Motor Corp., its 25%-owned affiliate.

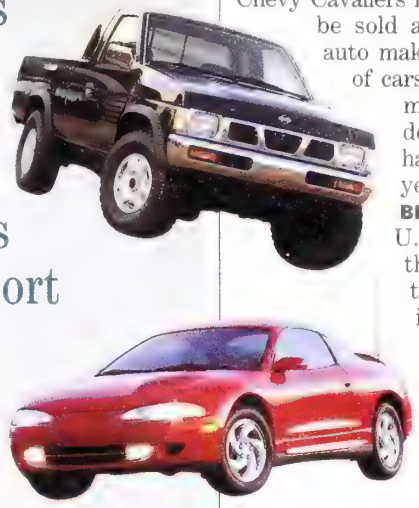
Chrysler Corp. will soon start making right-hand-drive versions of its Jeep Grand Cherokee for sales in Japan. General Motors Corp. plans to ship 20,000 Chevy Cavaliers into Japan next year to be sold as Toyotas. And U.S. auto makers are cutting prices of cars exported to Japan, a move designed to undercut Japanese rivals hamstrung by the rising yen.

BREAK THE BAN. Still, U.S. auto makers gripe that they can't squeeze through the bottlenecks imposed by Japan's distribution system. Most dealers are owned outright by Japan's car manufacturers, who forbid their outlets from selling imports. Detroit's Big Three—holding just 1% of Japan's $118 billion auto market—want Tokyo to exert pressure on its carmakers to break the ban. "Japan is a strong, stable economy looking to compete in every other market in the world," says Andrew Card, president of the American Automobile Manufacturers Assn. "Why won't they let others compete in their markets?"

That's what American companies have been wondering for years. Now the Clintonites figure it's time to stop asking nicely. Although they're risking an all-out trade war and an outburst from some states, U.S. officials think an overvalued yen has given them their chance to take Tokyo to the mat—at last.

By Douglas Harbrecht, Mike McNamee, and Dean Foust in Washington, with Edith Updike in Tokyo

Now, the U.S. is considering curtailing the "trade zones" that let Japan's carmakers import components virtually duty-free



JAPAN

FRAYING NERVES IN TOKYO

The currency crisis is splintering bureaucrats and business

In the game of capitalism, Japan's powerful Ministry of Finance has always played by its own rules. While other industrial powers largely opened their economies to the realities of global finance and trade, Japan's markets have remained in the MOF's iron grip. And in the name of protecting the financial sector, the MOF has artificially pumped up stock prices, giving banks and companies alike a free ride instead of forcing them into badly needed restructuring.

Now, the super yen is increasing pressure on the MOF to change its ways (table, page 50). While Japan has much experience in managing yen shock, the currency these days is looking a lot stronger than the ministry. Asian central banks keep dumping their export-earned dollars and buying more yen—partly to pay back billions' worth of yen-denominated debt and partly to strengthen their own currencies by bulking up yen reserves. Speculators, too, continue to sell dollars, betting that the yen's rise is inexorable.

So the MOF is hearing more and louder complaints at home. Small domestic businesses are getting beaten up by cheaper imports. Even savvy exporters have seen their price competitiveness

erode. Meanwhile, banks and insurers are getting battered by a 17% stock-market drop this year, which aggravates their bad debt woes. And Washington may use the currency crisis to step up its demands for freer trade (page 48).

The pressure is beginning to tell on Tokyo, where the once close-knit bureaucracy is starting to splinter and backbite. Fed up with the foot-dragging, International Trade & Industry Minister Ryutaro Hashimoto, a former Finance Minister, lashed out in early April and urged the MOF to "urgently get down to work on comprehensive measures" to halt the yen and revitalize the stock market. Only then did Finance Minister Masayoshi Takemura agree publicly with MITI's call for a cut in the discount rate, now at 1.75%. But so far, Bank of Japan Governor Yasuo Matsushita has balked. Although the MOF and Bank of Japan have traditionally worked hand in glove, a senior MOF official confirms that the central bank's glacial response is creating divisions among the two corps of powerful bureaucrats.

The only action expected soon is the Apr. 14 unveiling of a boilerplate stimulus package to crank up domestic demand: speeding up public-works spending, adding $12 billion to the budget, extending planned tax cuts, and eliminating stock-transaction taxes to lift share prices. And the central bank will probably lower the discount rate by 50 or more basis points soon afterwards.

PRICE CUTS. These measures hardly spell relief for Corporate Japan. With the yen around 83 to the buck, 200 major companies will see their expected 20% rise in pretax earnings in 1995 get hammered down to 5.1%, according to a survey by the newspaper *Nihon Keizai Shimbun*. Besides earning less abroad, they're losing market share at home to U.S. companies making the most of the weak dollar. Chrysler Corp. has announced plans to cut the Japanese price of its Jeep Cherokee by 10%, to $39,630. Improved price competitiveness has already helped computer makers such as Compaq, IBM, and Apple double their collective market share in 1994, to around 30% of Japan's $9 billion-plus PC market.

The Finance Ministry's last quick fix failed: Another flop could cripple its credibility

Wholesale distributors and small retailers, which collectively represent about 30% of total employment, are getting hit even harder. As prices fall for imported goods such as beef, vegetables, and luxury items, companies that stock only domestic items can't compete. "This could mean a wave of employment restructuring," warns J.P. Morgan Securities Inc. economist Jesper Koll.

No wonder the MOF is under the gun. Some observers even say the ministry worsened the present crisis by inflating financial wealth in 1992, instead of forcing banks and companies into greater efficiency. When the bubble economy burst in the early 1990s, the ministry pumped some $200 billion of postal and pension savings funds into the stock market. It worked for a while: The Nikkei stock average climbed 50% even while Japan was in its worst postwar recession.

But beginning this year, foreign investors pulled out of the market, taking profits on the huge stock and yen appreciation. More investors fled after the Kobe quake on Jan. 17. Now, the Nikkei has fallen back to levels that batter the equity portfolios of Japanese banks and life insurers. And analysts believe the market could fall far below its curre 16,000 level. The upshot is that the M "has lost a lot of prestige," says an exe utive with Yamaichi Securities Co., one Japan's Big Four brokerages.

For Japanese business, the MO botched rescue just postponed the ine table. If the market had been allow to tank two years ago, argues Dav Asher, an MOF critic and consultant U.S. House of Representatives Repub cans on Japan matters, companies wou have faced restructuring and bankru cies. But the yen was around 120 the Now, with yen pressure even strong than in 1992, companies and financial i stitutions face a more painful adjustme "By freezing the market at higher leve MOF allowed companies to maintain the irrational behavior," says Asher.

Without radical moves to attack t trade gap, currency relief seems nowhe in sight. Japan's stubborn surplus h barely budged, even though its goo have lost competitiveness. If anythin exporters are redoubling efforts to har on to market share overseas. Furthe more, Japanese banks and companie continue to unload dollar-denominate assets, from U.S. Treasury bills to MC Inc., to shore up their finances. Sin nonperforming loans and real estat won't evaporate, financial institutions a likely to keep bringing capital back hom That will boost the yen further still.

The strong yen has cut Japan's ec nomic growth outlook to around 1% f 1995—and some think Japan may eve fall back into recession. Another quick f like the stock market bailout could ju weaken the MOF's credibility further. Wit Washington talking tough again, whis pers of a more open Japanese econom are becoming shouts in Tokyo. Since it latest intervention scheme was such flop, the MOF may now have no choic but to listen.

By Brian Bremner in Toky

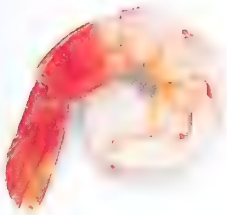
THE MINISTRY OF FINANCE UNDER PRESSURE

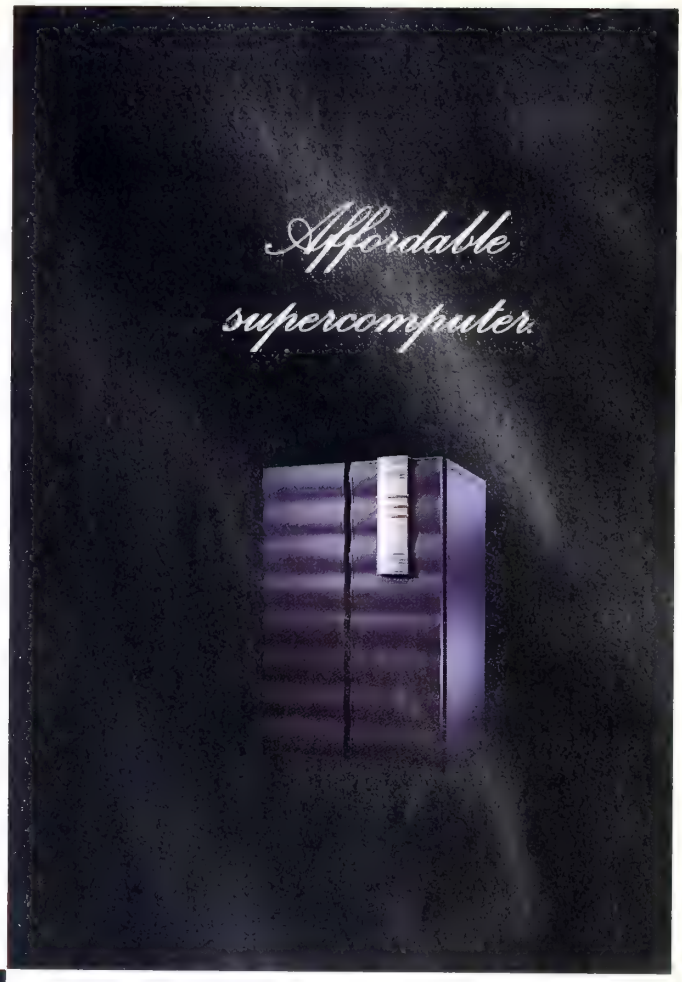
As Japan's key regulator and policy heavyweight, the Ministry of Finance is at the center of the yen crisis. The heat is on Masayoshi Takemura's Ministry from many sources—some with conflicting demands.

- Small domestic businesses want to keep trade barriers intact. Their size and inefficiency prevent them from operating in an open market.
- Big international businesses and exporters want a weaker yen. They lose pricing power and market share with every additional uptick in the currency.
- Banks and insurers want stock prices to rise. They need portfolio gains to offset the bad loans and troubled real estate investments on their books.
- Washington wants Japan to open markets and stimulate its economy to reduce the trade surplus. Negotiators say this is the root cause of Japan's currency problems.

DATA BUSINESS WEEK

Jumbo shrimp.





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THE KOREAS

A SHORT HALF-LIFE FOR A NUCLEAR AGREEMENT?

The North is resisting taking reactors from South Korea

When the U.S. reached an accord with North Korea last October to ease the threat of Pyongyang's nuclear weapons program, it seemed like a deal too good to be true. The South Koreans would build two light-water reactors in the North based on their own version of technology originally licensed from ABB Combustion Engineering. The burden of $4 billion in financing would be carried by Seoul and partly by Japan, leaving the U.S. with few costs but a key leadership role. And in return, the North froze its weapons program.

Now all that is at risk. The U.S. began a crucial round of negotiations with Pyongyang diplomats Apr. 12 in Berlin. The North has imposed an Apr. 21 deadline for signing a final agreement. The sticking point is this: Seoul is insisting that the North accept wording calling for "South Korean-type reactors." But the North, eager to avoid acknowledging the South's technological superiority, refuses to let it take the lead in building the plants.

Seoul says it is prepared to walk away from the deal unless it gets its way. Foreign Minister Gong Ro-Myung is threatening to pull out of the Korean Energy Development Organization, a consortium set up to manage the proposed plants. "We won't compromise, and there's no alternative to South Korean reactors," Gong said on Apr. 11.

The collapse of the nuclear plan could spark a crisis unless the Clinton Administration can come up with an alternate solution. Washington is quietly exploring the possibility of allowing Westinghouse Electric Corp. to step into any breach, South Korean sources tell BUSINESS WEEK. The Pittsburgh-based company is eager to revive its flagging nuclear division with a first sale of its new $900 million AP-600 light-water reactor. Developed at a cost of $350 million, it's billed as cheaper, safer, and simpler than current models.

ON THE DEMILITARIZED ZONE: THE ACCORD'S COLLAPSE COULD PRODUCE YET ANOTHER DIPLOMATIC CRISIS

BACKUP If Seoul walks, Clinton may try to tap Westinghouse, but huge problems lie in the way

Westinghouse hopes to sell dozens of the new reactors in Asia. But the hardest one to sell is the first. That's why the company may be willing to take an equity position in a first one in North Korea, according to South Korea's largest newspaper, *Chosun Ilbo*.

The State Dept. denies it is conside ing a lead role for Westinghouse, a the company also denies it is angli for a North Korean deal. "Westinghou is not involved in discussions or negot tions among the U.S. government, t Republic of Korea, and the North Kor an government regarding the supply of light-water reactor to North Korea," t company said. Sources at Westinghou say their competitors in South Kor stand to benefit from the publicity e broiling the company.

SHALLOW POCKETS. There could be lo of problems even if Westinghouse do step in. One is the Republican Congres which has opposed help for North K rea's Communist regime. Additional nancing could be a problem because U.S. government guarantees would available and North Korea is broke a can't afford to help pay. Seoul almo certainly would not help provide finan ing because the deal would be perceive as a breakthrough for Pyongyang. has long been the North's goal to de directly with the U.S., cutting Seo out of the dialogue. So there could new tensions between Washington a President Kim Young Sam.

Westinghouse also could find its rel tions strained with the governmen owned utility Korea Electric Powe Corp. The U.S. company is current working on a nonnuclear power proje in Inchon with KEPCO, which was have been the primary contractor f the North Korean nuclear plants.

And there almost certainly would be battle in Washington. A Westinghous deal would be "dead on arrival" if it go to Congress, says Douglas Paal, pre dent of the Asia Pacific Policy Cente One possible way around U.S. technolog restrictions would be to enter a joi venture with a Japanese partner, su as Mitsubishi Heavy Industries Lt Even that, however, would require a provals from the U.S. State, Energ and Commerce Depts., the company say

So the Clinton Administration cou find that none of its options work. has staked a great deal of prestige defusing the North Korean nuclea threat, in the face of Republican crit cism. But Pyongyang and Seoul cou make it impossible for Washington broker a deal. If the Berlin talks fai some diplomats expect North Korea restart its nuclear reactor and resum generating weapons-grade material. Th would make last October's breakthroug seem like a distant memory indeed.

By Laxmi Nakarmi in Seoul, Stephe Baker in Pittsburgh, and Amy Borru in Washington

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MEXICO: A NEW RUMBLE OF REVOLT

In early April, the Rio Grande bridge between El Paso, Tex., and Ciudad Juárez in Mexico was the site of an unusual protest. Frustrated at the meager financial support Juárez gets from Mexico City, the local mayor, Francisco Villarreal, erected his own makeshift toll booths in front of those of the Mexican government. For three days, traffic backed up for miles as stalwarts from the mayor's opposition National Action Party (PAN) collected tolls from motorists leaving Mexico for the U.S.

Federal police eventually dismantled the structures and arrested Villarreal. But that won't end the growing revolt against the authority of the federal government in Mexico City. From Chiapas in the south to Chihuahua in the north, Mexican businesspeople and politicians are growing bolder in defying the once all-powerful central government and presidency. They are resisting taxes, ignoring central directives, and demanding greater say in how money is spent in their regions. "For a whole century we have suffered from a presidentialism that has destroyed the best opportunities for this country," asserts Vicente Fox, a fiery PAN politician, who is likely to be elected governor of the state of Guanajuato on May 28.

VILLARREAL: *Under arrest*

GOOD SHOT. The PAN, a conservative party that caters to the middle class and small business, is both spearheading the demands for decentralization and tapping into the provinces' resentment of the capital's wealth. Aided by growing anger at the Institutional Revolutionary Party (PRI) for its mishandling of the economy and by a new intolerance of corruption, the PAN is snapping up control of states and towns. It recently won the important governorship of Jalisco and could win three more this year. The PAN also has a good shot at taking control of Congress in 1997—which would revolutionize Mexican politics by ending the PRI's monopoly on power.

Sensing a big opportunity, the PAN has mapped out strategy opposing President Ernesto Zedillo Ponce de Leó unpopular austerity program. But Zedillo's push for cle elections benefits the PAN, so it is supporting his efforts quell the rebellion in Chiapas and to check the PRI old guar

In the best example of such cooperation, Zedillo has a pointed an attorney general from the PAN, Antonio Loza Gracia, and given him wide latitude in tackling the corru judiciary and law-enforcement systems. Both the PAN and Z dillo have gained from Lozano's coups such as the jailing the brother of former President Carlos S linas de Gortari.

But at the local level, Zedillo's relatio with the PAN are growing contentious. T states are tired of watching as the feder government builds and profits from hydr electric dams or megaresorts in their are but gives them little money to deal wi local poverty. The economic crisis h pushed this issue to the forefront, as son governors are demanding the right to rai their own funds and decide how they' spent. Right now, the states have little a thority to tax and get a measly 18% of fe eral revenues. The new PAN governor Jalisco, Alberto Cárdenas, has already led his colleagues, i cluding some from the PRI, in forcing the government to ren gotiate $3.25 billion in state debt.

In the months ahead, Zedillo's greatest challenge will b to keep the devolution of power already under way from d generating into chaos. He probably believes that decentra ization and pluralism are the best cures for Mexico's corru tion and waste. But the risk is that his ceding control wi provide openings for enemies unwilling to accept that on party rule is near its end.

By Elisabeth Malkin in Mexico Cit with Stephen Baker in Ciudad Juáre

GLOBAL WRAPUP

ELECTION SHOCKER IN JAPAN

▶ Disgruntled voters shocked political parties by picking maverick independents as the new governors of Tokyo and Osaka prefectures. This is the first time anyone with no party affiliation will run either of Japan's two largest metropolitan districts. The victories—by a comedian and a TV actor—dramatize the disdain in which most urban Japanese hold the country's six major parties. Although the parties are now expected to engage in deep "self-reflection," a projection by Kyodo News Service showed that the three-party ruling coalition would likely retain power in expected national elections later this year.

CALLING NORTH KOREA

▶ AT&T has announced it is offering telephone service to none other than North Korea, probably the world's most paranoid state. Operator calls can be made from anywhere in the U.S. to North Korea. And from California, New Jersey, and New York City, you can dial direct to Pyongyang. But if you don't know the number of the person you're calling, forget about getting help. As AT&T puts it: "North Korea will not be providing directory-assistance services."

ISRAELI INDUSTRIAL PARKS

▶ Israeli Foreign Minister Shimon Peres and Industry & Trade Minister Micha Harish are backing a scheme to establish industrial parks along the Palestinian autonomous areas. The idea is to attract international investment, boost Palestinian employment, and reduce the need for Palestinian labor inside Israel.

Congratulations to the United States Cycling Team on winning 14 medals at the Pan American Games.

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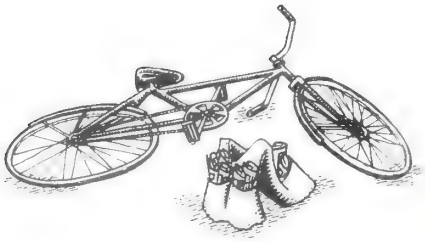

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Trade-in value expressed as a percentage of new '95 model year MSRPs. Source: NADA Used Car Guide, most recent month calculated: September 1994. †Always wear your seat belt.

COMPRESSION

A MAGNETIC MUG SHOT ON YOUR CREDIT CARD?

Kodak's highly compressed images could slash plastic fraud

Like many good ideas, it came like a bolt from the blue. Driving to work in late 1992, Eastman Kodak Co. mathematician Lawrence A. Ray heard a radio news report about credit-card fraud. He thought: Why not encode a picture of the cardholder on the card's magnetic strip? Unlike photos, the digitized image would be hard to alter. When the card was swiped through a reader, the image would pop up on the clerk's screen.

The idea worked. In late March, Kodak announced that its scientists had compressed a human facial image two-hundredfold, down to an incredibly tiny 50 bytes, just small enough to fit into the unused storage space on a credit card's magnetic strip. Two blue-chip partners, Citicorp and IBM, plan to test Kodak's system with customers, probably this summer. Kodak hasn't set a world record for compression—the Houston Advanced Research Center recently demonstrated three-hundredfold compression, using mathematical constructs called wavelets. HARC has licensed it to Ball Corp. for satellite images. Still, Kodak's is closer to commercialization, according to Richard F. Doherty, director of Envisioneering Group, a Seaford (N.Y.) imaging consultancy. Says Doherty: "It's a true breakthrough."

NOSE NO. 17. The system provides two levels of security. A salesclerk can catch obvious fraud by comparing the picture on the checkout terminal's screen against the person who presents it. Beyond that, a series of bits derived from the portrait, called a verification code, is sent to the bank along with the usual data, such as the sale amount. If the code doesn't match what the bank's computer expects, the transaction is rejected. The code changes with each transaction, a big advance on current static codes that can be easily forged. Result: Even if a clever thief managed to fool a clerk by encoding his own portrait on the strip, he would still be caught by the bank computer. "It's like a door with interconnecting locks," says Ray. "It won't open without both keys."

Kodak won't reveal details about the compression technology because its patents are pending. But Ray says his team started with a big edge over other techniques because it was dealing with just one type of image: a face. It would have two eyes, a nose, a mouth, hair, and so forth, thus limiting the information needed.

Kodak's method starts with a low-resolution image of about 10,000 bytes. Then, says Ray, it squeezes it, using "a very clever police-sketch type of algorithm." Without giving away important details, Ray says the algorithm breaks down the image into small portions and then finds ones that match, so the overall face can be represented more compactly. Of course, it's more complex than that, and Kodak has developed software that blends features to deliver a more life-like portrait.

Kodak's technology has other advantages, too: Some new point-of-sale terminals can be converted to use it for as little as $500. Photos could be taken at bank branches or gathered from motor vehicle departments. It's less intrusive than scanning fingerprints or retinas and more fraud-proof than electronic signature pads.

SMART-CARD SWITCH. But a photo security system works only for face-to-face transactions, currently just 60% of all sales on the Visa International network and shrinking. What's more, both Visa and MasterCard International Inc. plan to phase out magnetic-strip cards in the next decade, switching to smart cards with computer chips that can store far more information. It's not clear that many banks or retailers will spend money converting to Kodak technology that could soon be obsolete.

Visa also reports that credit-card fraud on its global network has shrunk about 20% in each of the last two years, thanks to new security measures such as software that detects aberrant spending patterns for an individual card. And banks and retailers don't know how customers will react to having their picture so widely used. "The Kodak system is an interesting technology," says Peter R. Hill, Visa's senior vice-president for payment technologies. "But... it's not clear what degree of acceptance it will have."

Still, IBM executives believe that smart cards, which cost more, won't be widespread in the U.S. for years. "This technology could certainly have a good run before smart cards become pervasive," says Warren J. Ayer Jr., the IBM executive in charge of the Kodak relationship.

Kodak has its own smart-card play: developing its technology with France's Gemplus, the leading maker of smart cards. The technology also can squelch check fraud by putting digitized images onto ordinary checks, using a stamp-sized bar code that looks like a checkerboard. Other possibilities: Employee I.D. cards and government welfare cards and checks. If Kodak is right, your image could soon be popping up on computer screens all over the place.

By Mark Maremont in Boston

The image at left takes up 10,000 bytes of magnetic storage. Kodak can produce the one at right with just 50 bytes. Here's how other compression techniques compare:

METHOD	TECHNIQUE	COMPRESSED FILE SIZE IN BYTES
TIFF	Discrete cosine transform	3,820
JPEG	Discrete cosine transform	1,682
ITERATED SYSTEMS	Fractals	140
KODAK	Matching	50

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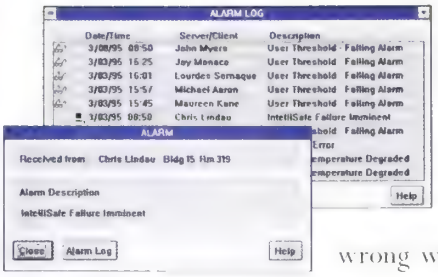

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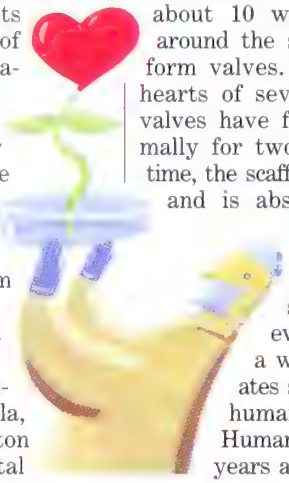
THE WONDERS OF A TWO-FACED MOLECULE

HE NEEDLE-AND-THREAD echnology being spun at the Jniversity of Illinois has othing to do with what's in randma's sewing basket. cientists use it to stitch aterials on the molecular cale, using elongated moleules stiff on the "needle" nd but soft like thread at ne other. The molecules are nly 0.01 micron long, so you ould need a necklace of 275 circle a human hair.

What's almost magical, ays chemist Samuel Stupp, ho heads the research team, that the needle ends are rawn to each other like agnets, and the soft ends so clump together. The reult: The molecules "self-asemble," clustering in parallel y the millions to create an trathin polymeric film that an have totally different roperties on either surface. or instance, engineers could ake one side sticky and the her slick. Such a film, Stupp uggests, could be rolled into artificial arteries whose outside would adhere to surrounding tissue—yet inside, blood would flow freely. Or each side could be tailored to stick to different materials, leading to composite panels for aircraft and car bodies even sturdier than today's tougher-than-steel composites. 3M Co. says the needle-and-thread approach is very clever and may promise a new generation of superfilms.

THESE IMPLANTS 'GROW' IN A LAMB'S HEART

EACH YEAR, ROUGHLY 60,000 Americans have an artificial heart valve implanted to replace one that fails to regulate blood flow properly. Constructed from plastic or extracted from the heart of a pig, such implants cannot make use of the body's mechanisms for growth and repair. They wear down over time and can cause blood clots. So scientists want to "grow" new heart valves from living cells.



This month, a collaboration of Advanced Tissue Sciences in La Jolla, Calif., and Boston Children's Hospital announced promising results with cells grown on a biodegradable scaffolding made of polyglycolic acid—the material used in dissolvable surgical sutures. Cells extracted from lamb blood vessels took about 10 weeks to grow around the scaffolding and form valves. Placed in the hearts of seven lambs, the valves have functioned normally for two weeks. Over time, the scaffolding dissolves and is absorbed by the lambs' bodies, leaving just the cells. Researchers, however, caution that a wide gulf separates sheep trials and human applications. Human tests are still years away.

A SAFER WAY TO ZAP BRAIN TUMORS

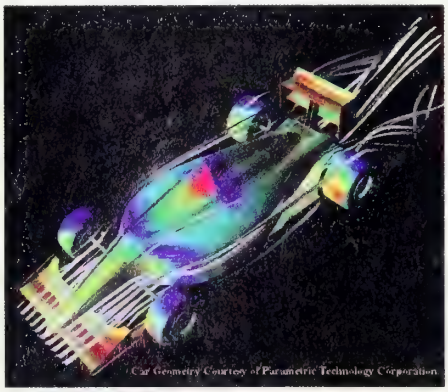
DOSES OF HIGH-ENERGY radiation from linear accelerators and so-called gamma knives can knock out malignant brain tumors. But these treatments are expensive and can damage surrounding tissue. Five years ago, scientific startup Photoelectron Corp. in Waltham, Mass., laid out a therapeutic strategy to attack metastatic brain tumors with greater precision and fewer side effects. Its approach, called the photon radiosurgery system (PRS), is now in full-scale clinical trials at Massachusetts General Hospital, Memorial Sloan-Kettering Cancer Center in New York, and other institutions. Early results show it to be an effective, economical tool to kill tumors other therapies can't reach.

With PRS, low-energy photons are injected into a tumor through a thin, 100-mm-long needle. It's inserted through tracks left by an earlier tumor biopsy, so there's no new trauma. Best of all, the X-rays are precisely calibrated to match the size and shape of the tumor, sparing healthy brain tissue. The entire procedure, taking 40 minutes, is completed in one shot, winning it the moniker "virtual outpatient brain surgery." At $500,000, PRS hardware is one-fifth the price of the conventional X-ray machines used to treat tumors. If the Food & Drug Administration approves, Photoelectron will expand clinical trials to include cancers of the breast, bladder, prostate, and other organs.

MAKING SENSE OF SWIRLING AIRFLOWS

TURBULENT AIR CURRENTS around a car or jet are very complex. They can strain even supercomputers using traditional equations that break the smooth movement of air into billions of tiny steps. Errors become magnified as equations are repeated. So Exa Corp. in Cambridge, Mass., is trying a different approach—one that traces its roots to the work of John von Neumann in the 1940s. Its "lattice gas" method assumes that globs of molecules are restricted to moving along the lines of a three-dimensional lattice, bouncing off one another only at the intersections. Exa has found a way to erase the traces left by this simplification.

If it works, Exa's approach could let designers solve aerodynamic problems while seated at workstations instead of supercomputers. The company, founded in 1992 by Kim Molvig, a theoretical physicist at Massachusetts Institute of Technology, is still working out some kinks. Last year, a glitch developed in software. But some big potential customers are willing to wait. Says Mark Gleason, a supervisor at Chrysler Corp.'s aerodynamics and fluid dynamics department in Auburn Hills, Mich.: "Some of their results on benchmark problems have been excellent."



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BEVERAGES

FROM THE MICROBREWERS WHO BROUGHT YOU BUD, COORS...

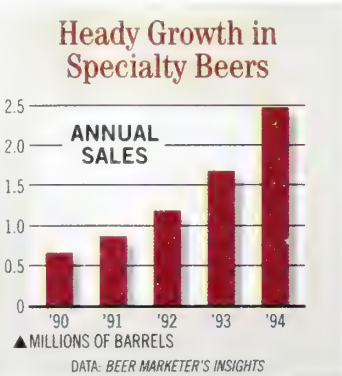
The giants are trying to give their specialty beers the mystique of the micros

MILLER TIME: *Red Dog is expected to sell 2 million barrels in '95*

Christopher Ruderman, 35, is just the sort of fellow to give the big brewers indigestion. Relaxing with a bottle of Pyramid Ale at Chicago's U. S. Beer Co., once a workingman's tavern and now a bar showcasing 100 regional brews, Ruderman says the trendy new beers pouring out of the national brewers leave him cold. Miller Brewing Co.'s popular new Red Dog? "It doesn't impress me in the slightest." Anheuser-Busch Cos.' Red Wolf? "I ain't buying." He goes on: "They seem so mass-produced. Now, buying micros—that's the ticket."

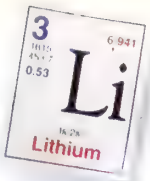
More and more beer drinkers have come to the same conclusion. Call them micros, craft, or specialty beers, the new quaffs come in many flavors, from wheat and honey to cherry and apricot. But they have several ingredients in common: high price, deeper flavoring, and, to the cognoscenti, a far hipper image than that conjured up by a six-pack of Bud. Partly, that's the mystique of obscurity. Anheuser produces 41.4 million barrels of Budweiser every year but will be unlikely to sell even 2 million barrels of Red Wolf in 1995. A good microbrewer might produce fewer than 15,000 barrels a year, with virtually all sold in its immediate area, maybe even in its own brew-pub.

But the specialty beers have something the big brewers are thirsting for: growth. While the U. S. beer industry is expected to stagnate for most of the decade, the specialty brews are growing at better than a 40% annual rate, with no slowdown in sight (chart). Little wonder, then, that the Big Four brewers—Anheuser, Miller, Adolph Coors, and Stroh Brewery—which control 80% of the beer industry, are rushing to tap a market that actually shows some fizz. Says Miller Chairman John N. MacDonough: "The new brands will generate our growth over the next five years." Taking a marketing page from companies as diverse as Hallmark Cards Inc., with its Shoebox Greetings unit, and General Motors Corp., with its Saturn division, the national brewers are trying to think and act small. Each is setting up specialty units with separate staffs to manage new brands and new investments. Their corporate identities are all but hidden behind colorful names that sound as if they have nothing to do with the brewing titans of Milwaukee, St. Louis, Detroit, and Golden, Colo.



Stroh, for example, expects that each of its breweries around the country will put out a regional brew like its Red River Valley Select Red Lager, produced in St. Paul, Minn. Stroh has also recently taken stakes in two small breweries—Sleeman Brewing & Malting in Ontario and another that the big brewer won't disclose for fear of damaging the micro's image. Coors, which has seen the growth rate of its specialty brew, George Killian's Irish Red, outstrip its flagship Coors and Coors Light brands, is now experimenting with its own micro: SandLot Brewery, housed at the new Coors Field baseball park in Denver. Coors will use SandLot to experiment with new products. "We will put new beers out there on almost a test-market basis," says Robert W. Joanis, vice-president for new-product marketing at Coors.

ONE-OF-A-KIND STAKE. Meanwhile, industry giants Anheuser and Miller, which after decades of acquiring smaller rivals now control 44% and 23% of the U. S. beer market, respectively, expect to similarly dominate the specialty market, which could reach 10 million barrels in five years. Anheuser and Miller have already taken stakes in two of the most successful small breweries around. Anheuser last year bought a 25% position in Seattle's Redhook Ale Brewery Inc. In Feb



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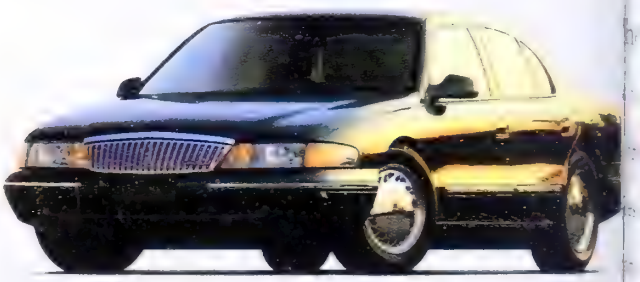

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LINCOLN

What A Luxury Car Should Be

Redhook has worked hard to keep Anheuser distributors from smothering its brands with radio and TV blitzes

ruary, Miller bought a controlling share in Celis Brewery Inc. of Austin, Tex.

Beyond that point, though, the strategies of the two giant brewers diverge. Anheuser's Redhook investment is likely to be one of a kind, a way to provide the brewer's distributors with a hot specialty product and its executives a sense of how the micro game is played. Redhook plans to increase capacity from 93,000 barrels per year to 225,000 barrels and, with Anheuser's help, add East Coast distribution.

But the heart of Anheuser's specialty business resides in a recently converted 15-barrel test brewery in St. Louis. That's where it concocts new brews such as Elk Mountain Amber Ale and Red Lager, and a new wheat beer, Crossroads. Other products are likely to be on tap soon. Anheuser is gambling that consumers will accept a small beer with a big brewer's name on the label—albeit not prominently displayed. "There is a certain mystique to smallness," admits August A. Busch IV, vice-president for brand management. "Ours are not beers from a small place, but they offer a variety of tastes." He says consumer research showed confidence in Anheuser's quality, convincing the brewer its name won't hurt sales of its craft brews.

PLANK ROAD MYTH. The new unit tries to act like a micro, though its bigness still gets in the way. "We have to micro check every marketing campaign," says Timothy T. Schoen, senior brand manager for specialty beers. "The toughest challenge is not to force specialty beers into the mainstream markets." To test its Elk Mountain, Anheuser went to consumers in the Northwest, home of the most discerning micro drinkers. But Anheuser isn't going to risk alienating them by throwing its mass-marketing muscle around. Instead of Elk Mountain TV commercials or Elk Mountain banners in sports arenas, the brand will be pushed in print ads and with videos and brochures aimed at bar owners. George W. Couch III, a big Anheuser distributor in Watsonville, Calif., says it's a major departure. "In the past, we wanted as much distribution as possible. Now, we're paying more attention to niches and are willing to accept that some products are regional."

Not without some effort, though. Executives at Redhook have had to work hard at times to keep Anheuser from smothering its brands. "Some of their distributors expected to use the whole range of radio and TV tools, and to sell to all of their accounts," says Pamela Hinckley, Redhook marketing vice-president. "That's exactly the opposite of how we sell."

Miller, meanwhile, is using stealth to seek growth among micros and what it calls the "macros"—beers that sell 2 million to 3 million barrels per year. None of the new brews carries the Miller name. "We heard loud and clear that the consumer doesn't want a craft beer coming from a large beer," says Richard Lalley, director of the premium brand franchise. So Miller marketers resurrected Plank Road Brewery—in name only. This 19th century Milwaukee brewery has long since faded away, except in Miller advertising, where it purports to be the producer of Red Dog and Icehouse brands. That, of course, risks turning off drinkers like Ruderman who aren't fooled.

In another attempt to keep its name off the label, Miller is buying boutique breweries, rather than creating them, with a goal of picking up one-quarter of the industry within five years. In late February, Miller set up the American Specialty/Craft Beer Co. to manage its micro deals, including Celis and Jacob Leinenkugel bought in 1988. Miller hopes to push the new brands gradually into wider distribution.

As competition heats up, Miller and Anheuser are scratching at each other with all of the ferocity of red wolves and red dogs. Especially galling to brand manager Busch is Miller's Plank Road. He says that Anheuser research reveals that "50% of the consumers go haywire when they find out it's not a real brewery." He considered running ads deriding Miller's efforts but decided to let Plank Road "eat itself." MacDonough, who left a top marketing job at Anheuser for Miller in 1992, shoots back: "The only people annoyed are at AB. The consumer doesn't care."

BIG SHAKEOUT. Well, do they? Red Dog's early rollout does indeed look impressive, with Miller expecting to sell 2 million barrels this year. Anheuser says Red Wolf, which has only just gone into national rollout, is ahead of plan. What's unclear, of course, is how sustainable the new brands are and whether their growth will come out of sales of the core brands. Christopher Finch, co-author of *America's Best Beers*, has his doubts about the new brands' prospects. He calls Red Dog "totally uninteresting" and says Elk Mountain would rate a two out of five on his scale, "if I was being generous."

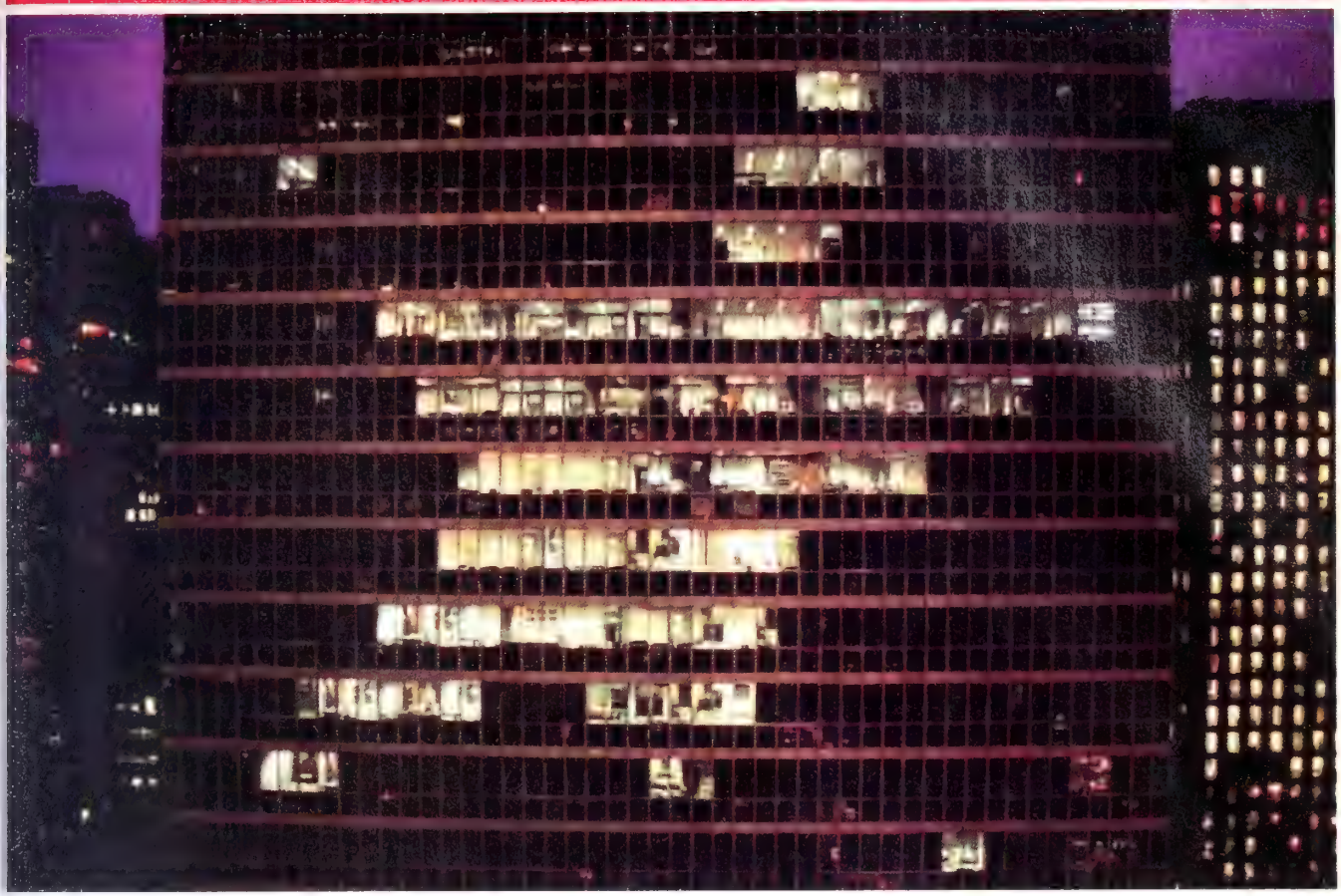
Even modest success by the titans will prompt a big shakeout among the nation's 500 small brewers. "Only the real quality micros will survive," predicts, Greg Schirf, president of tiny Schirf Brewing Co. in Park City, Utah. Other microbrewers, though fearful the new competition could trigger pricing pressure, doubt the giants can beat them. "Anheuser, Miller, and Coors can make anything they want," says Mark F. Bozzini, president of Pete's Brewing Co., the No. 2 micro behind Boston Beer Co., marketer of Samuel Adams. "The only thing they can't do is look like us with the name, history, and goodwill. That's not something you can replicate in a market-data room." The challenge for the megabrewers? Buying or building themselves a small image—and convincing beer connoisseurs such as Ruderman that they're the real thing.

By Richard A. Melcher in Chicago with Sandra Dallas in Denver and David Woodruff in Detroit

Big Brewers' Thirst for Small Beer

BREWER	LABELS
ANHEUSER-BUSCH	Redhook Ale*, Red Wolf, Elk Mountain, Crossroads
MILLER	Red Dog, Icehouse, Celis*
COORS	SandLot, George Killian
STROH	Sleeman*, Red River Valley

*partial stakes



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BANKING

ATTACK OF THE KILLER INVESTORS

Activists may hasten the consolidation in banking

First they stalked manufacturers, retailers, and consumer-products companies. Of late, some have been looking overseas. But now, slowly but surely, shareholder activists are training their sights on banks.

Reports of shareholder activism in the banking industry are just a trickle so far. But Michael F. Price's disclosure on Apr. 5 that he had taken a 6.1% stake in Chase Manhattan Corp., whose stock has been lagging, changed everything. Now, the mere thought of activist incursions has bank CEOs worrying about how to get their stock prices up to snuff. To further their goals, activists will likely push for mergers—whether bankers want it or not. "There will be a lot of situations involving bank mergers coming up where management and shareholders will think differently," says James K. Schmidt, manager of three funds, including the $800 million John Hancock Regional Bank Fund.

The results of several incursions already have been dramatic. One bank, Michigan National, agreed to be sold to National Australia Bank after contending with dissident shareholders including Price. And Compass Bancshares in Birmingham, Ala., became embroiled in a fierce proxy fight after the former chairman, who owned about 2% of the bank's stock, brought in a surprise bid for the bank from First Union Corp. The outcome remains uncertain, though the odds favor management. Compass CEO D. Paul Jones Jr. predicts that such battles will increase, particularly at banks with large institutional ownership.

GETTING RESTLESS

CHASE MANHATTAN CORP. Heine Securities and its president, Michael F. Price, disclosed on Apr. 5 that Heine had raised its stake to 6.1%. Price called for Chase to "seriously consider" ways to boost shareholder returns.

COMMUNITY BANK SYSTEM Shareholders sued unsuccessfully in March to block the DeWitt (N.Y.) bank's planned purchase of branches from Chase.

MICHIGAN NATIONAL CORP. After two years of agitation by Price, the bank agreed in February to be acquired by National Australia Bank.

COMPASS BANCSHARES The Birmingham (Ala.) bank's former chairman in January proposed a slate of candidates for the bank's board, who would have likely voted for it to be sold over the opposition of the current CEO.

DATA: BUSINESS WEEK

Shareholder activists have historically gone easy on banks. High-profile investors such as Warren E. Buffett, who owns 13.3% of Wells Fargo & Co., have remained relatively quiescent. Most bank CEOs take home smaller paychecks than their big corporate counterparts, and banks tend to be more sparing with executive perks. Moreover, in the past, banks' profits tended to rise and fall in lockstep, so many investors believed bank performance was tied more to cycles than to management skill.

STRONG LURE. Yet while most bank stocks have benefited handsomely from robust profits over the past four years, a fair number have seriously underperformed. Suspecting lackluster management, or at least inattention to share value, activist investors are stepping in. "There could be a lot of dead wood out there for activists to get to work on," says G. Kenneth Heebner, manager of several CGM mutual funds.

The pending relaxation of many bank regulations is also luring activists. The expansion of interstate banking is likely to promote more mergers and other deals that will boost stock prices. "Companies that don't perform really make themselves vulnerable to this kind of activity—and more so now because there are more potential acquirers," says Francis X. Suozzo, a bank analyst at S. G. Warburg & Co.

Chase is a case in point. The venerable New York bank's stock was trading below book value when Price disclosed his stake. And Price said in his filing with the Securities & Exchange Commission that Chase should seriously consider steps to "maximize shareholder value," often code words for selling or breaking up a company. Sure enough, investment bankers quickly began calling on the bank's executives with suggestions on how Chase could boost its share price.

Chase Chief Financial Officer Arjun K. Mathrani says the bank will continue to "execute the business strategy" to get the share price up. He also hopes that disclosing more information on the profitability of the bank's various business units will help.

Maybe. But what's more certain is that the specter of big, opinionated investors is looming ever larger in bank boardrooms far beyond Chase's headquarters. Bank executives are used to regulators looking them over. But now, many are sensing that a new Big Brother is watching.

By Kelley Holland in New York

FINOVA: REAPING RICHES FROM NICHES

t finances loans that rivals don't want to bother with

Lending money to corporations is one of the most iotly competitive usinesses around. 'he $600 billion mar-:et is dominated by ozens of huge banks nd such giant finance ompanies as GE Cap-:al Corp. One might hink there wouldn't e much room for mall players.

One would be rrong. Take Finova Group Inc., a small, ndependent lender rom Phoenix, just hree years old and rith only $5.8 billion 1 assets. Finova is naking a bundle with classic strategy: It ocuses with sharp recision on relative-y small loans and ighly specialized narkets that don't now up on most competitors' radar.

EICHENFIELD: *Need a used-jet loan? He'll hear you out*

The result: an average 32% annual er-share earnings growth since 1993. We absolutely love it," says Goldman, achs & Co. analyst Robert G. Hotten-en of the company's strategy. So do inova's customers, who gave the com-any a record $1.8 billion in new busi-ess last year.

DREAM COME TRUE." Finova, whose ame is a combination of the words "fi-ancial" and "innovators," was spun out consumer giant Dial Corp. in 1992 nd provides medium-size loans of 100,000 to $25 million. Its average loan, 3 million, is much too small for most ajor lenders. Samuel L. Eichenfield, ie company's 58-year-old CEO, estimates iat giant GE Capital needs $35 billion orth of new business each year to aintain its 15% historic growth rate. 'ou can't do that in $5 million chunks," ys Eichenfield. "The cost will kill you."

Despite Finova's small-chunk strategy, has developed expertise in a remark-ole variety of sharply segmented lend-g, everything from vacation time-share iancing and inventory factoring to used airplanes and communications finance. Finova basically goes after business too complex for local bankers but too small to attract the giants.

Because Finova can provide many different forms of financing, it does very well with cross-selling. At Polo Towers, a huge time-share complex in Las Vegas, President Stephen J. Cloobeck calls the financial smorgasbord at Finova "a dream come true." In addition to construction loans and loans based on time-share receivables, Finova has backed the development of a mall in the Polo lobby, and it is financing the fixtures and equipment in Polo's newest tower.

Still, Finova admits that on cost of funds, it's at a distinct disadvantage to banks, even though the company's growth has enabled it to triple its revolving credit line to $2.5 billion. That credit line, mostly from European and Japanese banks, is low-cost, but still higher than what banks pay for funds. Not surprisingly, Finova has some innovative ways to keep costs low. It developed a compensation system that gives its sales staff an incentive only to bring in loans that are likely to pass muster. A third of sales staff's compensation is tied to loan volume and profitability, so if a marketer generates a $2 million loan, he receives his compensation incrementally over the life of the loan. If the loan goes bad, he not only stops receiving that compensation, he actually has to regurgitate whatever he has already received. With that kind of motivation, Finova credit officers are able to approve 9 out of every 10 loans they see, as opposed to 1 or 2 in 10 at many banks. With such successful prescreening, the number of credit analysts Finova employs is kept to a minimum.

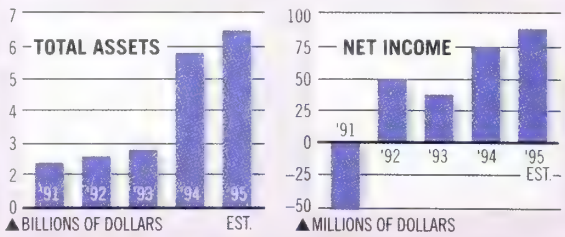
Not content with the torrid growth rate, Eichenfield has been on an acquisition binge. Last year Finova bought two large financing business—Bell Atlantic Corp.'s $1.8 billion TriCon Capital Corp. for $350 million in cash and Fleet Financial Group Inc.'s $300 million Ambassador Factors. Both added new specialties to Eichenfield's supermarket.

HIGHER PROFILE. Yet there's a good chance Finova could be an acquiree rather than an acquirer. Giant Deutsche Bank just expanded its U. S. corporate finance business by buying part of ITT Corp.'s financial inventory. And Fleet Financial is now back in the business as well. A major purchaser of financial assets himself in the past, Eichenfield is not ruling out the chance that someday Finova will be up for sale. "If earnings continue the way they have, I think it's a possibility," he says. But he adds he's not shopping the company around.

Less welcome attention, however, could come from imitators recognizing the company's success. "As they get to be a larger market entity, they're going to draw a lot more attention," predicts Michael P. Egizio, a credit analyst at Duff & Phelps. "People would be gunning for you more." So far, though, Eichenfield has managed to do a superlative job dodging the bullets.

By Nanette Byrnes in Scottsdale, Ariz.

FINOVA: GOING GANGBUSTERS



DATA: COMPANY REPORTS, HEINE SECURITIES CORP.

PHOTOGRAPH BY ANDREA BUCCI; CHARTS BY ERIK HOFFMANN BW

IT'S GOING TO BE A BUMPY RIDE, SAM

Zell wants to turn Midway into a serious player. Tall order

Sam Zell is a vulture investor who likes to move fast—whether it's motorcycling with his buddies across Nepal or snapping up bankrupt companies, such as mattress maker Sealy Corp. or bicycle maker Schwinn Cycling & Fitness. But recently Zell has expanded his love of speed to include the airline industry, an area he has wisely avoided before, while other savvy investors such as Warren E. Buffett, Carl C. Icahn, and the Pritzkers learned their lessons the hard way. Now it may be Zell's turn to get airsick.

Last July, Zell's $1 billion "vulture fund," Zell/Chilmark Fund LP, paid $25 million for 90% of tiny, money-losing Midway Airlines Inc. But Zell doesn't expect Midway to stay small for long. Under Zell-appointed management, Midway has moved from Chicago's overly crowded Midway Airport to Raleigh/Durham, N. C., where American Airlines Inc.'s departure has left plenty of room to expand. More surprising, Midway recently ordered four brand-new Airbus 320 jets, which list for $45 million each, at a time when many major carriers are canceling or deferring their orders. Although Midway flies to only eight cities today, the airline will add four more destinations in June and is even considering flying to the West Coast and the Caribbean, high-traffic routes where there's already a lot of competition.

"FRYING PAN." Zell insists Midway can take off. A nonunion workforce and cost structure about 35% below American's will allow it to make money where American could not, he says. Plus, Midway's core fleet of eight fuel-efficient Fokker 100-seat jets can operate on a breakeven basis when less than 50% of their seats are full. So far, Midway's results at Raleigh are ahead of schedule. "We're doing very well," says Zell.

Most airline experts, though, are very skeptical. They say the last thing the industry needs is another small, low-fare carrier flying north-south along the Atlantic coast. Continental, USAir, Kiwi, and Air South are all losing money doing just that. "Midway has jumped out of the frying pan back into the frying pan," says Michael Boyd, president of Aviation Systems Research Corp.

> "We consider investing in anything. We're professional opportunists"
>
> SAM ZELL
>
> *General Partner, Zell/Chilmark L.P.*

Moving to Raleigh/Durham also seems questionable. Its recently expanded airport is losing market share to nearby bigger hubs dominated by major carriers—USAir Inc. in Charlotte, N. C., and Continental Airlines Inc. in Greensboro, N. C. "American, with its considerable market clout and reputation, could not make Raleigh work. How can Midway?" asks Doug Abbey, president of consultant AvStat Associates in Washington. Ironically, it was Midway President John Selvaggio who recommended that American set up its Raleigh hub.

BASIC INSTINCT. Zell, who has dubbed himself the "grave dancer," usually buys troubled companies with real assets and strong brand names. But Midway has almost no assets. Its jets are leased, it owns no gates, and even its maintenance work is outsourced. "Midway Airlines is more of a paint scheme than an airline," says Lee Lipton, an analyst with Avitas Inc., a Reston (Va.)-based aviation consultant.

And Midway is hardly a brand name. The first Midway airline went bankrupt in 1991. It was reincarnated by another investor group in 1993, but soon the red ink was flowing fast again. As of June 30, 1994, the latest figures available, the new Midway had lost $11 million and had only $762,861 in cash to offset $19 million in liabilities.

Still, the institutional investors in Zell/Chilmark are inclined to trust Zell's instincts. His list of credits include lucrative investments in drugstore chain Revco D. S., fertilizer maker Vigoro, and Santa Fe Pacific, the former rail, energy, and gold conglomerate. "We consider investing in anything," Zell says. "We're professional opportunists." Walter Knorr, Chicago's comptroller, president of the Police Pension Fund, and a Zell investor, says Zell is "a cagey, aggressive investor. He's not a guy I would like to be playing poker with." However, not all Zell's investments are thriving these days. Manufactured Home Communities Inc., one of Zell's publicly traded real estate investment trusts, posted poor fourth quarter earnings.

Zell's risky plunge into the airline business has many people wondering what he's up to. "Maybe he's looking for a tax-loss carryforward," suggests Boyd. Zell spokesman Kirk Brewer says investors needn't worry—Zell doesn't have his ego wrapped up in this one, and Midway represents only a tiny fraction of the Zell/Chilmark Fund. That's good, because the skies haven't been too friendly lately. Buckle up, Sam.

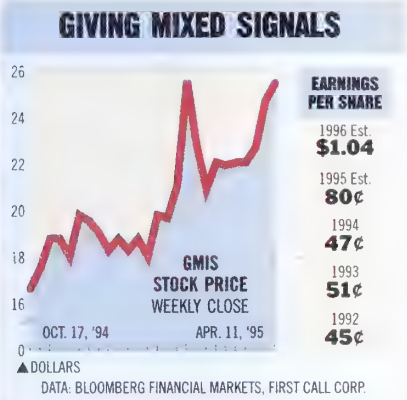
By Susan Chandler in Chicago

BY GENE G. MARCIAL

DON'T WATCH THESE INSIDERS

Beware of signals from corporate insiders: Their sales or purchases of shares may or may not reveal the true mood in the corporate suite. That appears to be the case at GMIS (GMIS), a major provider of health-care database systems. Insider activity at GMIS is hardly signaling one real prospect: a takeover.

GMIS Chairman, President, and CEO



Tom Owens bought 5,000 shares on Mar. 1, raising his holding to 108,367 shares. On Mar. 31, GMIS Director Alan Miller reported he had sold 36,077 shares. A month before, Moore Capital Management Group cut its stake to 4.7% from more than 5%. But after Miller sold his shares, Moore Capital switched direction and bought again, raising its stake to 6.5%.

Based on such activity, one would hardly conclude that a buyout was in the offing. But it may well be, according to one investment manager familiar with what's going on. This pro says a Big Board data processing company with revenues of around $1.8 billion has put out feelers to Owens that it is interested in acquiring GMIS at 35 a share. The stock, trading at 19 in late January, has been rising, closing at 25⅝ on Apr. 11.

Apparently Owens has kept the approach under wraps and feels the offer doesn't reflect the true value of the company, says one insider. Another director, asked whether GMIS was a target, replied: "I wouldn't be surprised, but who knows? I couldn't tell you about these things even if I knew."

Based just on estimated earnings growth of more than 30% annually over the next several years, some analysts put the value of GMIS at 36. In a buyout, one investor figures it's worth 40 to 45.

GMIS' appeal is software programs. Its "knowledge-based software systems empower insurance companies, managed-care organizations, and other health-care payers to manage the cost, quality, efficiency, and appropriateness of care," says analyst Ann Gallo, who just moved to Bear Stearns from Piper Jaffray.

One popular GMIS product is ClaimCheck, software that helps payers identify improper claims. Another is Insight, a clinical and financial database that organizations use to profile or judge a doctor's performance relating to cost, quality, and efficiency of care. A New York money manager argues that a larger database-systems company could provide GMIS' systems to a wider network of users in the U.S. and overseas.

STAMP OF APPROVAL?

When the price of postage goes up, so does the stock of Pitney Bowes (PBI), the leading maker of postage meters and related equipment: A price hike involves readjusting all meters, and Pitney gets added revenues as a result. The recent rise in first-class rates, from 29¢ to 32¢, rescued Pitney from a long slump.

Pitney's stock, which slid to 30 in early February from a high of nearly 46 in March, 1994, has since edged up to 35. Growth investors have become wary of Pitney, ever since earnings from Europe failed to meet analysts' expectations. But value investors are buying. "We think the stock has bottomed out here, so we've been buyers. We believe it's worth 44 to 48," says Nancy Tengler, managing director of UBS Asset Management in San Francisco.

She thinks that, starting next year, sales of Pitney gear in Germany and France will rebound, and she expects that China's 55,000 post offices will be a gigantic market. She notes that Pitney has won an agreement from the government to market meters there. "So far, we're only looking at China's postal offices—never mind the thousands of commercial offices that will also need Pitney's equipment and expertise to improve their antiquated mailing services," she says.

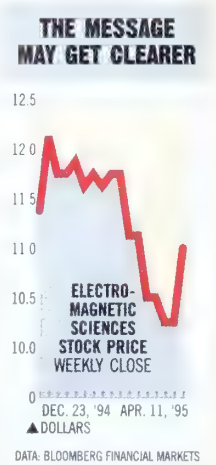
But the early payoff overseas will come from Germany and France, where Pitney has launched a new marketing strategy, says Tengler.

PUTTING WIRELESS GEAR IN ORBIT

Always on the lookout for an unrecognized star in a hot business, a number of hedge-fund managers have been buying into Electromagnetic Sciences (ELMG), which specializes in wireless communications in worldwide markets. "It's one of the few pure plays in wireless technology that's making money and growing very rapidly," says one New York money manager.

Electromagnetic's attraction is its products. Its 70% owned, publicly traded LXE (LXEI) subsidiary, which sells at 15 a share—makes wireless datacommunications systems that are radio-linked with host computers. The company's two other units—EMS Technologies and CAL Systems—make advanced communications and signal-processing electronics products used in satellite systems.

CAL is the exclusive maker of airborne antennas for American Mobile Satellite, which were used in the MSAT satellite launched on Apr. 7. The antennas also transmit voice and data from private planes at sharply lower costs than available alternatives. In addition, Electromagnetics is using its technical knowhow to develop antennas for personal communications services (PCS). Sales of the antennas, says one pro, should boost company earnings in 1996 and 1997.



Electromagnetics, which is practically debt-free and has a healthy balance sheet, has grown rapidly: Earnings jumped in 1994 to 58¢ a share on sales of $117.9 million, up from 1993's 20¢ on sales of $99 million. One major investor thinks earnings will leap to 82¢ this year and to 96¢ in 1996. He sees the stock doubling in a year.

ERIC HOFFMANN/BW

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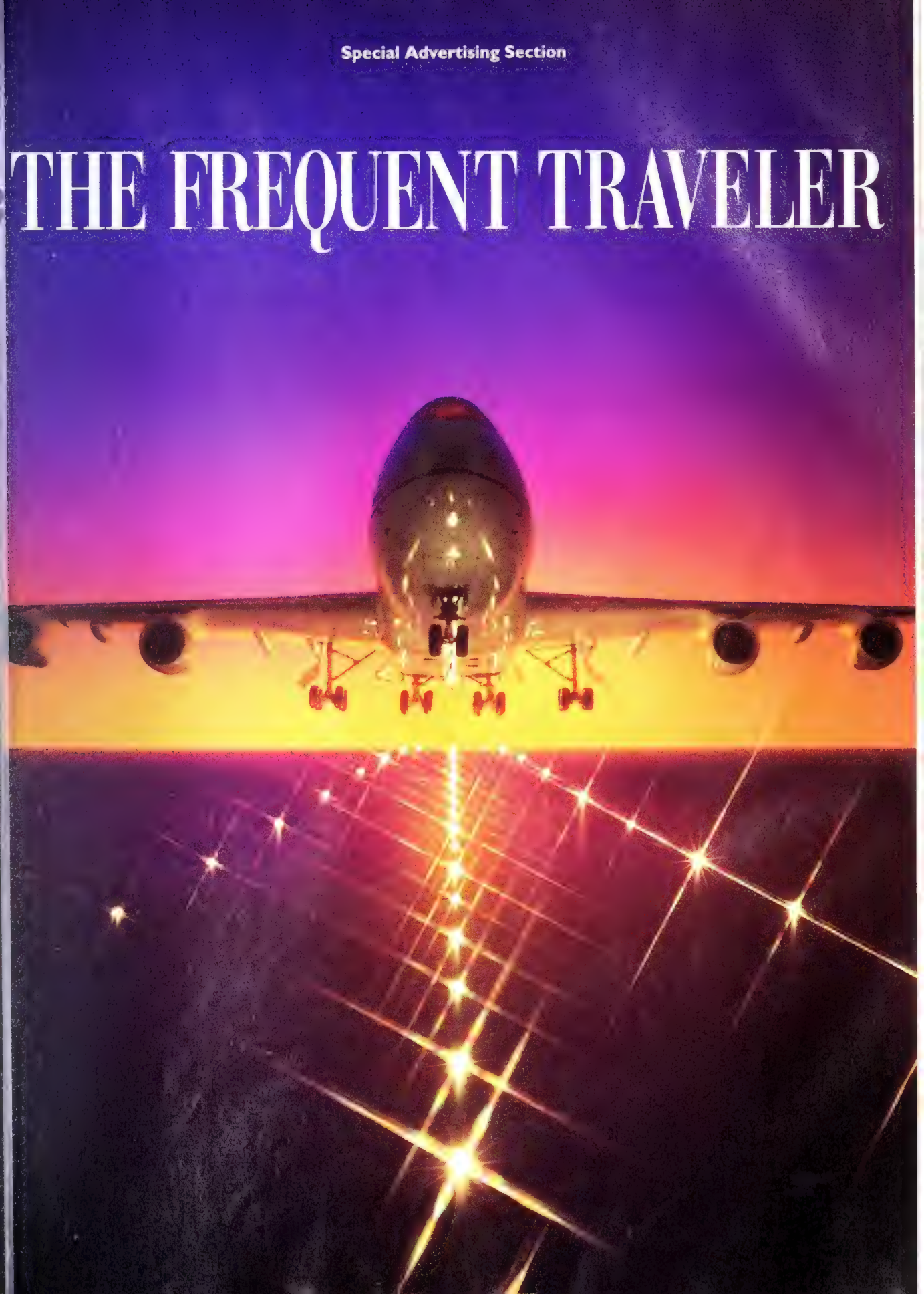


THE FREQUENT TRAVELER

When Elite Dining Is An Elevator Ride Away

Hot Hotel Restaurants

Mark's in The Mark is wowing business travelers with its inventive American cuisine.

Savvy road warriors are choosing their hotels purely for the convenience of having a fine restaurant handy for business entertaining.

No longer en-Gulfed by severe cost cutbacks, business travel is back in style, and so is hotel dining, coast to coast. Savvy road warriors, in fact, are choosing their hotels partly for the convenience of having a fine restaurant only an elevator ride away.

Typical of the dining-in trend is **Rox** (213/772-2999), a creation of star-chef Hans Rockenwagner whose kitchen talents include superb lamb and crab soufflés — it's in the very "in" inn on Rodeo Drive, the **Beverly Prescott** (800/421-3212). And with a similar flair **Mark's** (212/879-1864) in The Mark (800/223-1588) on Manhattan's Upper East Side is wowing business travelers with its inventive American cuisine (along with special wine and cigar nights for aficionados).

L.A. ALLURES The Beverly Hills (310/276-2251), reopening in June, has 52 phones at poolside and the one and only **Polo Lounge**. The food may be secondary to the celebrity sights, but the idea is there.

At **Trader Vic's** (310/274-7777), a fun chain that fell out of favor in the Eighties, you can go for the rum-and-fruit-juice drinks and pupu platter — all at the Beverly Hilton (800/445-8667).

For a return to czardom book a table at **Diaghilev**, a popular dacha in the Bel Age (310/854-1111) where you wash down Russian dishes with plenty of vodka and lots of people-watching.

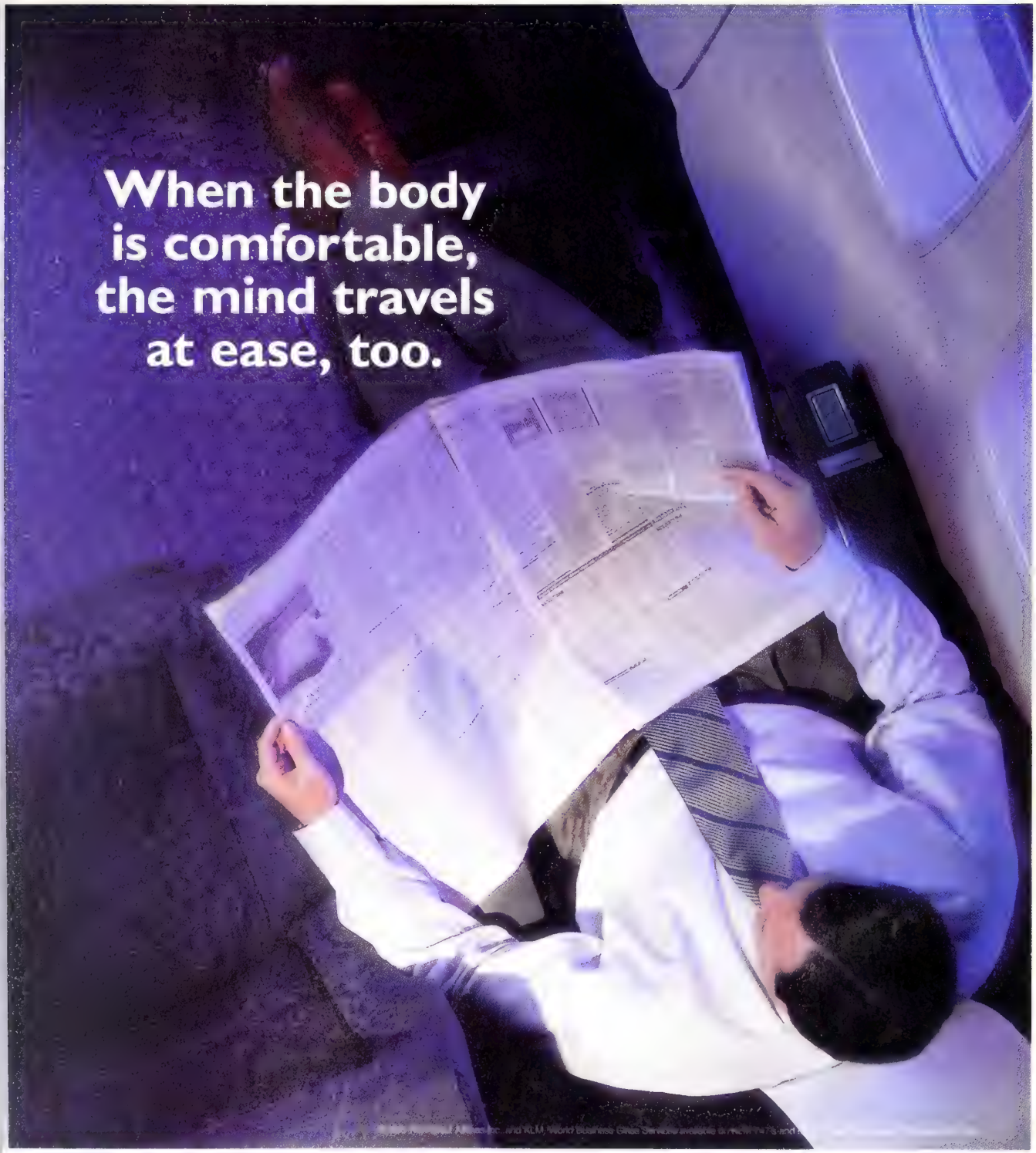
The Restaurant at the hacienda-style Bel-Air (310/472-1211), a favorite with bicoastal guests, has greenery for scenery and frenchified California cuisine.

Appointments downtown? **Bernard's** (213/612-1580) in the palatial Biltmore (800/245-8673) has been a classic for years, even with chef changes. In the nearby boutique Wyndham Checkers (800/426-3135) there's upper-echelon sophistication at the **Checkers Restaurant** (213/624-0000), which features French-American dishes.

BAGHDAD BY THE BAY At the top of any food-loving San Franciscan's list of restaurants would be **Masa's** (415/989-7154) where chef Julian Serrano orchestrates the contemporary French cooking and it's right in the Vintage Court (415/654-1100), which provides comp limo service to the financial district.

At Kempinski's Campton Place (415/781-5555), a jewel of a hotel, chef Todd Humphries turns out well-crafted Californian dishes at **Campton Place.**

SOUTHERN COMFORT In Atlanta most of the hotel culinary honors go to super-chef Guenter Seeger's **The Dining Room** (404/237-2700) in the Ritz-Carlton Buckhead (800/241-3333). A



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THE FREQUENT TRAVELER

mainstay for years, **Nikolai's Roof** (404/659-3282) in the Hilton (800/445-8667) caters to visiting executives with its Russian-accented continental menu and spectacular rooftop view.

MIDWEST KITCHEN MAGIC In Chicago, what's better than the well-done American dishes served up in the golden oldie **Pump Room** (312/266-0360) of the Omni Ambassador East (800/843-6664)?

Along the "Magnificent Mile" you can enjoy gourmet dishes in the **Boulevard Room** (312/944-4100) of the Inter-Continental (800/327-0200), the stylish **La Tour** (312/280-2230) in the Park Hyatt (800/233-1234) at Water Tower Square, the **Seasons** (312/280-8800) in the Four Seasons (800/332-3442), a white-gloves establishment, and **The Dining Room** (312/266-1000) in the Ritz-Carlton (800/241-3333). In the Loop, enjoy the refined Midwest home cooking in the plain-wood **Prairie** (312/663-1143) of the Hyatt on Printer's Row (800/233-1234).

Hotel culinary honors go to chef Gunter Seeger's The Dining Room in the Ritz-Carlton Buckhead.

Combine Southern comfort with northern efficiency for a dining treat unbelievable.

EASTERN SHUTTLE In Washington, where business intersects with politics, visiting firemen meet their top lobbyists at maestro Jean-Louis Palladin's **Jean-Louis** (202/298-4488) in the Watergate (800/424-2736).

The Mayflower (800/468-3571), a Stouffer landmark that has hosted presidential balls, now sports **Nicholas** (202/347-8900) with chef Tino Buggio deftly preparing seafood that's delicious.

For trendy dining amidst TV and cabinet-level celebrities, book **Citronelle** (202/625-2150) in the Latham (800/368-5922) where chef Michel Richard shows off his creative California cuisine.

Even after its decorating update, name change and revamped menu — more or less Californian to keep the Hollywood crowd happy — **Seasons** (202/944-2000) at the swish Four Seasons (800/332-3442) gets top rating among hotel restaurants.

Also super-attractive for business entertaining — and close to the White House — are the **Willard Room** (202/637-7440) in the Willard Inter-Continental (800/327-0200) with seasonal dishes and the **Lafayette** (202/638-6600), a power center in the Hay-Adams (800/424-5054) that features New American cuisine.

A who's who of Washington dines in the renovated **Jockey Club** (202/659-8000), D.C.'s version of the "21" Club, in the Ritz-Carlton (800/424-8008).

APPLE BLOSSOMS In New York, garnering praise from restaurant critics is about like winning the Kentucky Derby, but two hotel restaurants, both formal and French, have done it: the cool **Lespinasse** (212/339-6719) in the turn-of-the-century St. Regis Sheraton (800/325-3535) and **Les Celebrites** (212/484-5113) in Nikko Hotels' Essex House (800/645-5687) facing Central Park.

A surreal hotel with real food? Try the Royalton (800/635-9013) where designer Philippe Starck and chef Geoffrey Zakarian merged talents to create **44** (212/944-8844), a restaurant that has captivated neighborhood executives.

At the all-suite Surrey (800/637-8483) you're within steps of **Daniel** (212/288-0033), a hangout of New York's upper crust run by star chef Daniel Boulud.

In Boston's financial district **Julien** (617/451-1900) in the Meridien (800/543-4300) is the ultimate in elegance and French cuisine. **Aujourd'hui** (617/338-4400), the graceful restaurant at the Four Seasons (800/332-3442), gives diners a view of the Public Gardens.

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The New Monte Carlo

GENUINE CHEVROLET™

THE FREQUENT TRAVELER

TravelUpdate

Virgin Territory
THE LOUNGE FOR ALL LIFESTYLES

Virgin Atlantic Chairman and entrepreneur Richard Branson spoils his Upper Class passengers rotten with comp limo service to and from your flight — at Newark, JFK, Gatwick, and Heathrow. (He has been known to call his economy customers Riff-Raff Class in jest.) At the airport he provides pre-boarding Snooze Service and a nifty buffet for your picking if you want to sleep rather than dine during the flight. And aloft, in his new 747-400s (800/802-8621 for reservations), he gives you a massage, serves Virgin Vodka at a standup bar, and lets you turn your transatlantic trip into a two-movie flight with a library of videos to see on your personal pullout TV. And in a David-Goliath airline partnership, launched in early April, he's enabling Delta Frequent Flyers to earn miles on Virgin nonstops between JFK/Newark and Heathrow.

At the Virgin Clubhouse, dip into a book in the library lounge designed like a country manor house and loaded with antiques.

At the Clubhouse there's a diversion for every lifestyle.

Now the maverick mogul has upstaged his other innovations with his **Virgin Clubhouse** (81-897-5051), the airline's $1.5-million lounge located a short zig and zag from Gate 12D in Terminal 3 at Heathrow. There's a diversion in it for every lifestyle. Don't leave the airport without seeing it.

Chunnel Commute
WHAT EUROSTAR IS LIKE

Five **Eurostar** (800/848-7245) "bullet" trains now shuttle between London and Paris/Brussels, finishing the race in three hours — as fast as a plane between city centers. First class ($154 one-way with discounts for Europe rail passes and advance purchase) on Eurostar's TGV-style 18-car trains includes a solid table with expansion leafs (for meals, laptops) in its 2-2 and 1-1 facing configuration. The ride is faster than expected through English countryside, quiet through the tunnel under the Channel, and swift as a plane on takeoff through Normandy farmlands.

Meeting Magic
CRUISING WITH CUNARD

For the executive style at sea, few cruise lines can match Cunard's cachet — with six of the world's most luxurious ships in its fleet.

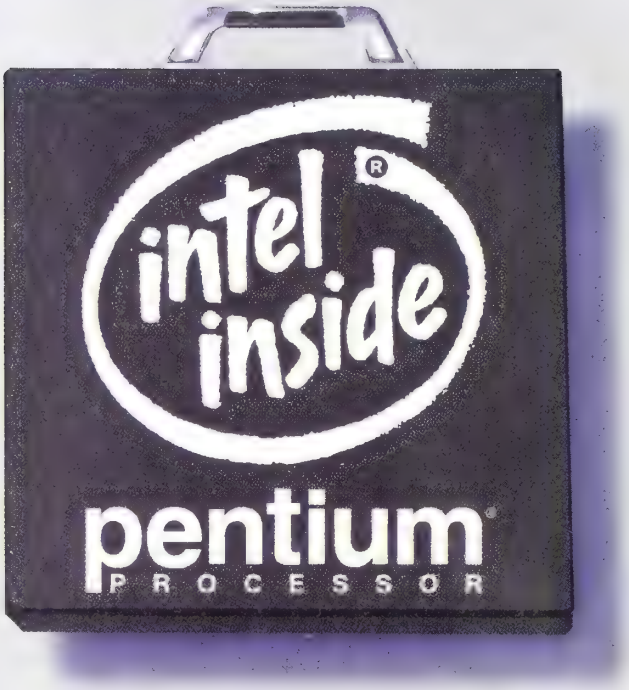
That's why more and more boards, executive committees, and other top-level corporate groups are booking suite space on the refurbished QE2, smaller (and also refurbished) Vistafjord, and yacht-type Sea Goddess I and II for meetings.

And with the sleek Royal Viking Sun sailing under the Cunard flag, there's yet another choice for classy get-together cruises.

Does this violate the work ethic? Even top executives are mere mortals who enjoy combining work with pleasure — it's called an incentive.

You can meet in a suite or "boardroom" on shipboard, but break for fun time in Cunard's Golden Door spas, casinos, cabarets, and gourmet restaurants.

If you want to connect with **Cunard** (800/221-4770) for a one-of-a-kind work vacation, consider the options.



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• You probably spend more time on company finances than on your own personal investment portfolio. So it might make sense to book a group — spouses included — on the QE2's July 10 to 15 transatlantic "theme" cruise. Aboard will be guest lecturers on personal finance from J.P. Morgan, Union Bank of Switzerland, and *Worth*.

• But what size ship? Cunard's flotilla ranges from a mega-ship (QE2, 1800 passengers) to boutique pleasure crafts (Sea Goddesses I and II, 116 passengers). With the biggest you get the works: absolutely every kind of diversion; with the smaller, a caviar-and-vodka treatment tailored to your own special itinerary.

Which you choose depends on your personal tastes — and budget. Either way, it's the same Cunard service, English butler-style.

On Cunard's floating palaces, relax after work in the casinos, spas, cabarets, and restaurants.

Executives are using suites on Cunard's QE2, Vistafjord, Sea Goddesses and Royal Viking Sun for top-level meetings.

Traveling Office
GUEST ROOMS WITH GADGETS

Forget working 9 to 5 — it's a thing of the past, particularly for business travelers. And so **Marriott** (800/543-4300), a hotshot of hotel management (and now a major shareowner of Ritz-Carlton), is installing the "Room That Works" in 20% of its full-service guest rooms systemwide. Its main features: a large desk, adjustable ergonomic chair, and key accessories including two power outlets, a PC modem jack, and moveable work light. After surveying business travelers — two-thirds use laptops in hotel rooms — Marriott teamed up with AT&T and Steelcase to make on-the-road life easier for business travelers at its 900-plus hotels worldwide.

Battery Packed
GETTING CHARGED UP

Ironically, the 20th century electronic gear you lug around, from laptop to calculator, uses a refined holdover from the 19th century: batteries. Having them go dead just when you're writing a report on deadline or going to a critical meeting can be a nightmare.

Here's some advice on their strong and weak spots.

• New "smart" Duracell and other batteries use microprocessors to warn you when they're getting low.

• Let nickel-cadmium batteries, the most common type, drain completely before recharging. Otherwise, they tend to take only a partial charge — good for, say, one hour rather than two. (No problem of this sort with lithium-ion or nickel-metal hydride batteries.)

• The newer NiMHs, now used in power-hungry business tools, generally last 40% longer than the NiCds.

• It's only wise to minimize the drain on your portable batteries by dimming your screen, accessing the disk drive only when necessary, and not repeatedly turning the machine on and off. Newer top computer models have helpful built-in power managers.

• You won't do yourself a favor by recharging batteries well in advance of a business trip. They lose their power when idle. Juice them up the night before you leave. Though cumbersome, take along a spare NiMH (about $120) or lithium-ion ($199). You can find AAs and their ilk anywhere.

This text was written by Paul Burnham Finney of Finlyn Communications, Inc. Mr. Finney is a well-known journalist with expertise in worldwide business travel.

A Penny bought the whole airline.

Imagine that.
All those giant 747s. All our brand new 777s. All of our everything. Bought by a Penny. A very hard-working Penny to be sure. Vernon Penny, customer service representative. One of the 55,000 employee-owners of United. The very people who built the airline and now own it.

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Come fly our friendly skies.

The largest employee buyout ever!
Never underestimate the power of a Penny.

UNITED AIRLINES

What a bunch of pikers. The best-paid chief executive of a public company in 1994 was Charles S. Locke, who last year retired as chairman and chief executive of Chicago-based Morton International Inc. For running the maker of chemicals and automobile air bags, Locke earned a mere $25.9 million last year—just one-eighth of the megamillions that Walt Disney Co.'s Michael D. Eisner was paid in 1993. In fact, 1994's 10 best-paid CEOs combined failed to make what chart-topper Eisner brought home in 1993: an astounding $203 million.

So is executive pay finally coming down from the stratosphere? The last few years have seen a rising swell of public outrage over zillion-dollar CEO paychecks. Swept along by that tide, legislators and regulators pushed through a raft of reforms, from a $1 million cap on the corporate deductibility of executive salaries to improved disclosure to shareholders. And boards of directors were said to be bestirring themselves, sharpening their scrutiny of pay proposals. Is the relative restraint of last year's paychecks evidence that these reforms are at last taking hold?

Special Report

Hardly. The big news this year isn't in the big numbers—it's in the fine print. Buried in the latest pay contracts chief executives are signing and the lists of stock options they're salting away in the wall safe are the auguries and portents of things to come. And what they're saying is this: You ain't seen nothing yet.

All the public clamor and regulatory maneuverings have been aimed at one goal—forging better links between executive pay and corporate performance. And boards of directors have indeed been overhauling pay practices to tie pay to performance as never before. But as the old saying has it, be careful what you wish for, because you just might get it. True, CEOs these days stand to see their pay shrink if they fail to deliver the goods to shareholders. But when the boss does perform, his pay is more likely than ever to go into orbit.

BIG DOLLARS. Waving the pay-for-performance banner, many companies have been shifting more and more of the chief executive's pay into stock options. The theory isn't unreasonable. Unless they're granted at below-market prices or otherwise finagled, options mean the boss fares well only when shareholders do. But today's proxies offer evidence of tomorrow's treasure. Pay consultants see CEO pay increasingly based on commission-like formulas that award chief executives a percentage of their company's stock appreciation. "Shareholders clearly want to tie CEO compensation to the performance of the stock, and they are willing to pay very big dollars for performance," says Maurice Segall, a director at AMR Corp. and Harcourt General Inc.

That's why the numbers on BUSINESS WEEK's 45th annual Executive Pay Scoreboard represent the calm before the storm. The survey, compiled with Standard & Poor's Compustat, a division of McGraw-Hill Inc., examined the compensation of the two highest-paid executives at 371 companies.

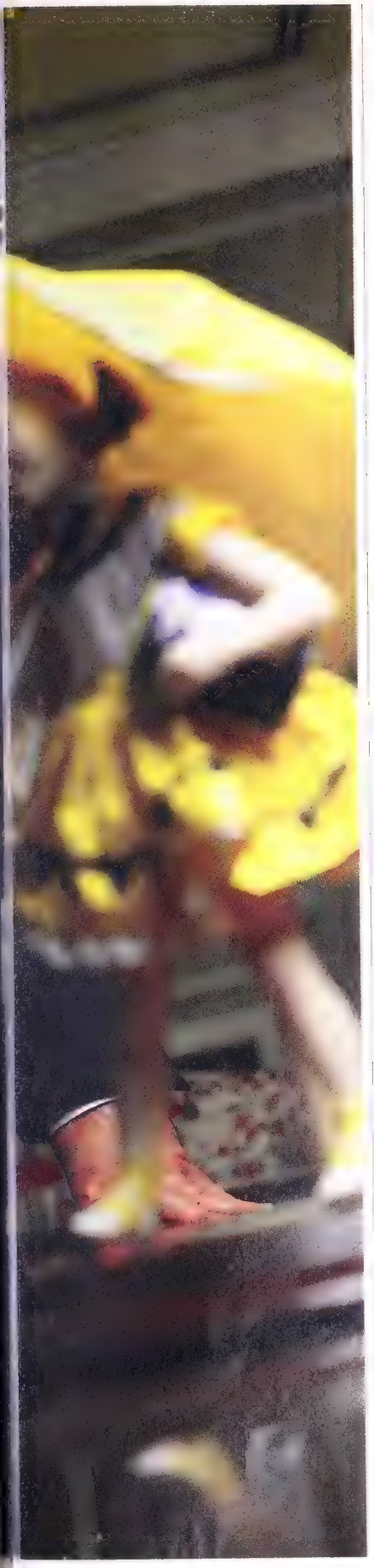
On the BUSINESS WEEK ranking, the compensation of AlliedSignal Chairman Lawrence A. Bossidy looked modest by recent standards. He landed at No. 8 on the top-paid list, with $12.4 million. True, the board hiked his base salary 82%, to $2 million a year, and guaranteed him a minimum cash bonus of $1.85 million for 1994. But more

THE WINNER

Morton CEO Charles Locke led the parade. His pay: A relatively paltry $25.9 million

CEO PAY: READY FOR TAKEOFF

Stock options will soon fuel a new surge in compensation



The Top-Paid Chief Executives...

		1994 SALARY AND BONUS (THOUSANDS OF DOLLARS)	LONG-TERM COMPENSATION	TOTAL PAY
1	**CHARLES LOCKE** MORTON INTERNATIONAL	$12,042	$13,886	$25,928
2	**JAMES DONALD** DSC COMMUNICATIONS	8,208	15,618	23,826
3	**CARL REICHARDT** WELLS FARGO	2,671	13,941	16,612
4	**REUBEN MARK** COLGATE-PALMOLIVE	2,358	13,412	15,770
5	**ECKHARD PFEIFFER** COMPAQ COMPUTER	5,050	9,642	14,692
6	**JAMES CAYNE** BEAR STEARNS	7,666	6,906	14,572
7	**HUGH McCOLL** NATIONSBANK	3,000	10,725	13,725
8	**LAWRENCE BOSSIDY** ALLIEDSIGNAL	3,633	8,756	12,389
9	**LOUIS GERSTNER** IBM	4,600	7,753	12,353
10	**SANFORD WEILL** TRAVELERS	3,903	8,266	12,169
11	**MAURICE GREENBERG** AMERICAN INTERNATIONAL GROUP	3,750	8,330	12,080
12	**ROBERTO GOIZUETA** COCA-COLA	4,371	7,683	12,054
13	**WARREN BATTS** PREMARK INTERNATIONAL	2,366	9,611	11,977
14	**CHARLES KNIGHT** EMERSON ELECTRIC	2,015	9,738	11,753
15	**JAMES MELLOR** GENERAL DYNAMICS	2,691	8,533	11,224
16	**MICHAEL EISNER** WALT DISNEY	8,019	2,638	10,657
17	**ROBERT KIDDER** DURACELL INTERNATIONAL	1,349	9,280	10,629
18	**W.J. SANDERS III** ADVANCED MICRO DEVICES	4,660	5,773	10,433
19	**KENNETH LAY** ENRON	2,486	7,653	10,139
20	**STEVEN WALSKE** PARAMETRIC TECHNOLOGY	726	8,179	8,905

...And 10 Who Aren't CEOs

		1994 SALARY AND BONUS (THOUSANDS OF DOLLARS)	LONG-TERM COMPENSATION	TOTAL PAY
1	**SAMUEL GEISBERG** CHMN. PARAMETRIC TECHNOLOGY	$1,402	$16,943	$18,345
2	**GARY STIMAC** SR. VP COMPAQ COMPUTER	1,000	14,228	15,228
3	**JOHN CHAMBERS** EXEC. VP CISCO SYSTEMS	345	14,681	15,026
4	**ALAN GREENBERG** CHMN BEAR STEARNS	10,981	3,591	14,572
5	**LAWRENCE LASSER** PRES. PUTNAM (MARSH & McLENNAN)	11,320	368	11,688
6	**GEORGE BORKOW** EXEC. VP UNITED HEALTHCARE	1,351	9,141	10,492
7	**WILLIAM MURRAY** CHMN. PHILIP MORRIS	2,150	6,063	8,213
8	**WILLIAM SHANAHAN** PRES. COLGATE-PALMOLIVE	1,297	6,397	7,694
9	**GERALD MONTRY** SR. VP DSC COMMUNICATIONS	1,747	5,887	7,634
10	**ROBERT GREENHILL** CHMN. SMITH BARNEY (TRAVELERS)	5,080	2,129	7,209

DATA: EXECUCOMP BY STANDARD & POOR'S COMPUSTAT, A DIVISION OF MCGRAW-HILL INC.

The news isn't in the numbers—it's in the fine print. And it says you ain't seen nothing yet

important, it also gave Bossidy two huge stock-option grants on a total of 1.8 million shares of AlliedSignal Inc. stock. The company explains that the larger of the two grants—on 1.5 million options—is "in lieu of future annual grants." Still, if AlliedSignal stock rises by 10% annually over the 10-year term of the option, Bossidy stands to gain $100.5 million on those two option grants alone.

AlliedSignal has certainly thrived under Bossidy. The company's market value rose an average of $1.8 billion a year, to almost $10 billion from $4.5 billion, since he joined the auto-parts and industrial products maker in mid-1991. Its return on equity climbed to 29.8% from 10.9%. Delbert C. Staley, the board director who heads AlliedSignal's compensation committee, says the new contract simply makes Bossidy's pay "competitive with compensation packages currently offered to the nation's most highly regarded, sought-after executives."

Special Report

It's true that he has plenty of company. Kenneth L. Lay of Enron Corp. came in at No. 19 on the list, with $10.1 million in total pay. But last year, Enron's board handed him options on more than 1.4 million shares of stock. If he can increase the value of the company's shares by 10% a year over the options' 10-year term, Lay will have a trove worth some $76 million—all by virtue of one year's worth of stock options.

Such prospects are in sharp contrast to the apparent restraint in 1994's paychecks. In a year in which overall corporate profits showed a stunning 34% gain, the average salary and bonus of chief executives climbed only 10%, to $1,399,698. Even more surprising, the CEO's average total pay package, including stock options and other long-term compensation, fell 25%, to $2,880,975. The reason: Fewer chief executives exercised stock options last year, when the weak stock market made their options less lucrative. Once again, though, a record number—537 of the 742 executives—earned more than $1 million in pay last year.

The second-place finisher in the 1994 pay ranking was a newcomer, James L. Donald, chief executive of DSC Communications Corp., a telecommunications equipment maker in Plano, Tex. Donald earned $23.8 million last year, some $15.6 million from exercising a stock option. The company stoutly defends his pay, noting that when Donald joined DSC in 1981 it had only five employees, no commercial products, and a market value of under $10 million. DSC now boasts more than 5,410 employees and a market cap of $3.5 billion. "This gentleman has performed," says a DSC spokesperson. "His pay is a sign of our success."

LEADING THE PACK. The other big winners come largely from mainstream companies in banking and finance, consumer goods, and industrial products. Carl E. Reichardt, retiring CEO of Wells Fargo & Co., got $16.6 million, while Reuben Mark of Colgate-Palmolive Co. pulled down $15.8 million. Compaq Computer Corp.'s Eckhard Pfeiffer earned $14.7 million, and Bear Stearns & Co.'s James E. Cayne made $14.6 million.

In an analysis linking CEO pay and performance over the past three years, BUSINESS WEEK and Compustat found that investor Warren E. Buffett of Berkshire Hathaway Inc. provided the best return to shareholders for his compensation. Laurence A. Tisch, CEO of CBS Inc., turned in the best company results relative to his pay. On the negative side of the pay-for-performance ledger are Disney's Eisner and Ronald W. Allen, CEO of Delta Air Lines Inc. (box).

Last year's comparatively miserly overall numbers disguise a growing view of the CEO as superstar. Some of the folks who are crafting the latest sheaf of pay deals think CEOs should get as much as executives who lead a leveraged buyout—10% to 15% of the equity—or even as much as top money managers, who cream off 20% of the gains they return to investors. "The litmus test is the investment funds man-

Pay for Performance: Who Measures Up... And Who Doesn't

To see how pay matches up to performance, BUSINESS WEEK uses two measurement systems. One relates pay to how good a job the executive did for shareholders. The other compares pay with how good a job the executive did for the company.

EXECUTIVES WHO GAVE SHAREHOLDERS THE MOST FOR THEIR PAY...

1992–94	Total pay* Thousands of dollars	Shareholder return**	Relative index
1 WARREN BUFFETT Berkshire Hathaway	$300	125%	751
2 MICHAEL BIRCK Tellabs	1,831	673	422
3 JOHN MORGRIDGE Cisco Systems	1,078	324	393
4 ERIC BENHAMOU 3Com	3,486	817	263
5 ROBERT SWANSON JR. Linear Technology	1,878	205	163

...AND THOSE WHO GAVE SHAREHOLDERS THE LEAST

1 MICHAEL EISNER Walt Disney	221,127	63	0.7
2 SANFORD WEILL Travelers	132,614	72	1.3
3 ANTHONY O'REILLY H.J. Heinz	41,096	4	2.5
4 JAMES CAYNE Bear Stearns	45,216	22	2.7
5 RONALD [illegible] Lockheed	30,651	–0.4	3.2

EXECUTIVES WHOSE COMPANIES DID THE BEST RELATIVE TO THEIR PAY...

1992–94	Total pay Thousands of dollars	Average return on equity	Relative index
1 LAURENCE TISCH CBS	5,485	56.7%	239
2 JAMES PRESTON Avon Products	3,921	95.0	174
3 JOHN MORGRIDGE Cisco Systems	1,078	34.0	149
4 R. J. TARR JR. Harcourt General	9,679	12.7	118
5 MICHAEL BIRCK Tellabs	1,831	16.5	98

...AND THOSE WHOSE COMPANIES DID THE WORST

1 RONALD ALLEN Delta Air Lines	2,136	–26.1	–86
2 JAMES PATE Pennzoil	3,181	–3.8	–47
3 ERIC BENHAMOU 3Com	3,486	–3.0	–27
4 ROBERT WILLIAMS James River	3,056	–5.1	–19
5 RICHARD HOLDER Reynolds Metals	2,096	–6.7	–17

*Salary, bonus, and long-term compensation paid for the entire three-year period **Stock price at the end of 1994, plus dividends for three years, divided by stock price at the end of 1991

DATA: STANDARD & POOR'S COMPUSTAT

SOME CEOs ARE BARGAINS, AND SOME . . .

Famed investor Warren E. Buffett has long held strong views on the way U. S. companies pay their top executives. The chief executive of Berkshire Hathaway Inc. has declared that too many pay plans are "long on carrots but short on sticks." He has railed against the misuse of stock options by executives and chided business leaders for lobbying against an accounting rule that would have made companies charge options to corporate earnings.

So it may be no surprise that the "Oracle of Omaha"—who pays himself a pittance of a salary—is one of this year's two winners in BUSINESS WEEK's pay-for-performance analysis. Buffett wins for giving shareholders the biggest gain on their investment. Laurence A. Tisch, CEO of CBS Inc., gave shareholders the highest return on equity (ROE) relative to his pay.

"PSYCHIC PERKS." Buffett draws an annual salary of $100,000, with no bonuses or stock options, while shareholders have seen the value of their stake in the company rise by 125% in the past three years. Buffett notes in Berkshire's latest annual report that he and Vice-Chairman Charles T. Munger share the view that they are beneficiaries of "the abundant array of material and psychic perks that flow to the heads of corporations. Under such idyllic conditions, we don't expect shareholders to ante up loads of compensation for which we have no possible need." Buffett certainly doesn't need the money. His 40.7% stake in Berkshire is worth some $11 billion.

Tisch doesn't need the money, either. Besides serving as CEO of CBS—which paid him $5.5 million in the past three years—he's chief of Loews Corp., where he earned $5.6 million in the same period. His stakes in both companies are worth more than $1.6 billion. He heads the profitability list because his CBS paychecks are relatively small, given the company's high ROE of 56.7%. That heady number is the result of a stock buyback, which has eclipsed recent operating woes at the web. Declining ratings have caused profits to dip, and CBS surprised analysts on Apr. 10 by reporting that net income plunged 68%, to $21.9 million, in the first quarter.

And the CEO who gave shareholders the least return for his pay? For the second straight year, the envelope goes to Walt Disney Co.'s Michael D. Eisner. From 1991 to 1993, he got $221.1 million, nearly all from stock options. A $100 investment in Disney rose to $163 in the same period. A spokesman says it is unfair to compare the value of Eisner's options—granted a decade ago but mostly exercised in fiscal 1993—with performance over the past three years. A $100,000 stake in Disney in 1984, when Eisner became CEO, would now be worth more than $1.5 million.

Delta Air Lines CEO Ronald W. Allen gave shareholders the lowest profitability relative to his pay. In the past three years, Allen earned only $2.1 million, but his company's return on equity was a negative 26.1%. Fare wars, a weak economy, and the cost of buying Pan Am led to a loss in 1991, Delta's first since 1983. Allen has cut costs, abandoned money-losing routes, and forged alliances with European lines. But he has a long way to go to get a shot at landing on the positive side of the pay-for-performance ledger.

By Lori Bongiorno in New York, with bureau reports

The Most

STAR POWER

CBS's return on equity under Tisch averaged a heady 56.7%

SHAREHOLDER'S PAL

Buffett is paid $100,000; Berkshire investors saw their stake rise 125% in the past three years

The Least

TWO-TIME LOSER

For the second year in a row, Disney's Eisner gave shareholders the least return for his pay

FLYING LOW

Delta's Allen was at the bottom of the return-on-equity list, at –26.1%

CLOCKWISE FROM TOP: PHOTOGRAPHS BY STEVE WINTER BLACK STAR; SHERMAN VALENTA NATIONAL PHOTO; SEA A. ALLEN/PENSON

aged by the superstar managers like George Soros and Julian Robertson," argues Arnold S. Ross, of New York-based pay consultants Hirschfeld, Stern, Moyer & Ross. "If the most sophisticated investors in the world are willing to give 20% of their gain to a Soros, perhaps the superstar CEO should get the same."

Special Report

Unlike most chief executives, however, managers in an LBO typically place their personal fortunes—and often those of family members—at risk. Money managers, for their part, earn next to nothing when their strategies turn sour. And the success or failure of an investment fund is usually directly traceable to its top money manager. A hired-hand corporate chieftain, by contrast, is typically living off an established set of patents, trademarks, products, and inventory—as well as the efforts of thousands of employees. Eisner, for example, was the beneficiary of a highly valuable film library and a legacy of characters left to him by founder Walt Disney.

And even Eisner isn't paid by Soros-style standards. If he were, he would have made about $4 billion instead of the estimated $500 million he has collected since taking the helm of the entertainment company. "You can't pay too much for performance," insists Ross. "You can only pay too much for mediocrity." Critics counter that it's unnecessary to dangle such lavish gains as the incentive to perform. "You could have pay for performance if you paid the CEO $1 million or $10 million," says shareholder activist Robert Monks, who runs the investment fund Lens Inc. "God didn't set these huge multipliers for CEOs."

SETTING A MINIMUM. Equally galling to some critics, many of the reforms of recent years have demonstrated the law of unintended consequences: They have served to increase rather than decrease executive pay. Consultants note that new government rules make it harder for boards to increase bonuses above the targeted payouts for executives who exceed their performance goals. As a result, boards are setting easier goals and funding more generous incentives. The $1 million cap on the deductibility of pay is having a similarly perverse effect, according to some consultants: It has become something of a government-approved $1 million minimum salary.

The biggest backfire, however, came from the Financial Ac-

ARE YOU GUYS CRAZY OR SOMETHING?

How low can executive pay go? How about paying your company to work for it? That's what S. Robert Levine did last year. Levine, who draws a puny $52,000 annual salary as chief executive of Cabletron Systems Inc., wrote his company a personal check for more than $70,000 to cover his business expenses that were not reimbursable by Cabletron.

Levine hasn't had a raise in nearly eight years, along with Chairman Craig R. Benson, 39, who also earns just $52,000 annually. He gets no cash bonuses, stock options, or other incentive compensation. And last year, more than 420 of the 4,900 employees at Cabletron, which makes computer networking equipment, actually brought home bigger paychecks than the pair.

"REVOLTING." What gives? The two say their minuscule pay is a statement of their disgust with out-of-control executive pay. "I find it extremely distasteful the way many CEOs pay themselves," says Levine, 36, who founded Cabletron in 1983. "The numbers are pretty revolting, and we don't want to be part of it."

Levine's and Benson's tiny paychecks are also a reflection of their company's frugal corporate culture. Both executives sit at used metal desks in spartan offices at the company's headquarters in Rochester, N.H. There are no chairs in the conference rooms to encourage managers to keep meetings brief. And there are strict limits on expenses: no first-class airplane travel, no hotel bills of more than $70 a night, and a maximum meal allowance of $35 a day. Those limits are the reason Levine had to reimburse his company for expenses last year. "They march to a different drummer," says Paul R. Duncan, chief financial officer of Reebok International Ltd. and a Cabletron director. "These guys are driven by a need to be efficient, fast, and lean, and they are setting an example for the rest of the company's employees."

THE LITTLEST PAYCHECKS

Cabletron President Levine and Chairman Benson got salaries of $52,000, less than 420 of their employees

You can't fault their success so far. The company, with a market value of $3.5 billion, reported a 36% jump in net income, to $162 million, for the fiscal year ended Feb. 28. Sales also rose 36%, to $810.7 million. Cabletron went public in 1989 at $5.80 and now trades for $46.50.

The pair can afford to have their unconventional ideas about pay. Together, they own Cabletron stock worth some $927 million, and they have sold more than $500 million in company shares in the past five years. "Most of our compensation comes when we build the stock price up," says Benson.

Levine and Benson could easily pay themselves a salary and bonus 20 or more times what they currently make. What does the outside world think of their stand? "They're naïve," sniffs Arnold S. Ross, a New York-based executive-pay consultant. "If they want to be tightfisted about it, they should at least pay themselves what it would cost to hire someone to do their jobs." After all, what headhunter could ever find a top executive willing to work for just $52,000 a year?

By John A. Byrne in New York

Last year's comparatively miserly pay disguises a growing view of the CEO as a superstar

ounting Standards Board's effort to require companies to harge stock options against earnings. Many boards handed ut hefty stock-option awards, hoping to squeeze them in efore the new rules went into effect. FASB decided against its roposal, however, after severe pressure from business interests. "The threat of FASB intervention led a large number of ompanies to make unusually large grants of stock options to heir top executives," says executive pay consultant Pearl Ieyer. "The enormous numbers of these grants will raise the verall tide of executive pay in years to come."

Back in the 1970s, most companies would reserve about % of their outstanding stock as options for senior mangement. Today, the 200 largest corporations set aside near- 10% of their stock for top executives, according to a surey by Meyer. In almost all cases, moreover, it's the superstar CEO who takes the lion's share of these stock rewards. At toymaker Mattel Inc., CEO John W. Amerman alone got 30% of the stock options granted to the company's employees last year. AlliedSignal's Bossidy got 26.6% of the options handed out by the board; the next-highest awards were just 1.8% each, given to a pair of executive vice-presidents. Alfred Lerner, CEO of MBNA Corp., was given 26.9% of last year's stock options.

Not all that long ago, boards granted stock-option packages on little more than 100,000 shares. Today, directors are commonly handing out options that are three to five times that number—and some grants top 1 million. Last year, the CEOs of at least 45 of the 371 companies tracked by BUSINESS WEEK were given option packages on 250,000 shares or more.

Many of these option grants are being parceled out to

SANDY WEILL: THE KING OF STOCK OPTIONS

Travelers Chairman and CEO Sanford I. Weill's $12.2 million paycheck last year was nothing to write home about. After all, it's less than he has made in each of the last three years—and just barely enough to place him among the 10 highest-paid chief executives last year.

Still, as pay packages go, Weill's is one of the most lucrative deals in business. It's a contract that stands in stark contrast to the $52,000 check drawn by Cabletron System Inc.'s S. Robert Levine. Travelers pays dearly for its CEO—so much so that only one other chief—Walt Disney Co.'s Michael D. Eisner—has earned more in the past three years than Weill, who has gotten $132.6 million since 1992.

To be sure, Weill has cobbled together a hodgepodge of assets—from American Can to Smith Barney Inc.—to build a highly successful diversified financial supermarket. Travelers Inc. reported a 39% rise in net income, to $1.3 billion in 1994. Few shareholders begrudge him his take. "Sandy Weill is an entrepreneur and a risk-taker," says Pearl Meyer, a pay consultant. "He is unique."

So are his rewards. The vast majority of his riches have come from an unusual "reload" feature in Travelers' stock-option plan. Every time Weill exercises an option, he receives another to replace it, at the latest market price. In 1994, Weill was given a reload on some 525,500 options. In the two previous years, he gained options on 6.9 million shares. More typical CEO option grants are in the 100,000-to-250,000 range.

OVERPAID. The upshot: Unlike most grants that are not automatically renewed, the reload feature makes option grants for Weill a near-annual event—as long as Travelers' stock rises by 20% and he holds on to the shares. Pay critic Graef "Bud" Crystal calls Weill's reloads the "Dracula option." "This option just keeps coming back to life," he says. "There's no combination of garlic, silver bullets, or stakes that will kill it."

ROB KINMONTH

A RISK-TAKER'S REWARDS

With the help of an unusual compensation plan, Weill has made $132.6 million in the past three years.

And it has paid off big time. Including cash, restricted stock payouts, stock-option exercises, and "paper profits" on unexercised options, Weill made some $184.5 million from 1991 to 1993, according to Crystal's calculations. Average CEO pay at the 350 largest corporations during that same period totaled $14.8 million. Crystal figures that Weill was overpaid by $135.6 million. "He is dead wrong," says Travelers President James Dimon. He notes that the company's market value has risen to $12.3 billion from $1 billion in 1986 when Weill took predecessor Commercial Credit Corp. public. "Many of these options were exercised after seven years of hard work," adds Dimon. "The reload creates ownership out of options that other executives would exercise and sell."

Indeed, Weill owns 5.3 million shares of Travelers, worth more than $210 million. "If that company goes down the tubes, Sandy Weill is going to be one of the biggest victims," says Crystal. "That's not an excuse for the size of his package, but it's not a let-them-eat-cake thing, either."

By John A. Byrne in New York

chief executives who already hold vast troves of options that have yet to be exercised. About 55 chief executives in BUSINESS WEEK's survey have unexercised stock options already worth $10 million or more each (table). Disney's Eisner still tops this list, with $171.9 million in options waiting to be cashed in. D. Wayne Calloway, CEO of Pepsi

Special Report

Co Inc., is sitting on a [illegible] million hoard.

As the piles of cash get higher and higher, few complaints are being heard. Graef "Bud" Crystal, the prominent critic of executive pay, says that he is still surprised at the public's muted reaction to CEO pay packages. "In England, they are having Parliamentary hearings over pay when the CEOs there earn about a third of what American chiefs make," says Crystal. Why is there so little fuss in the U.S.? "People here may be used to the big numbers," he says. "And because people still believe their children can someday make it to the top, there's a tendency not to complain."

A SCORECARD. The other reason, of course, is that by the time these huge sums become more public, the shareholders of these companies will also have gained. "Their greed isn't hurting anybody," says James McKinney, a New York-based pay consultant. "It's benefiting people. It's making the shareholders richer, too."

Many pay observers even argue that it's not greed that has driven CEO compensation sky high. How much the boss makes has become something of a scorecard, an American way to keep track of business success. It is, under this logic, recognition of an achievement among an elite group of executive peers. "Eisner's $203 million in 1993 is the equivalent of Roger Maris' home-run record," says David Swinford, a pay consultant at William M. Mercer Inc. "It's a great accomplishment." The numbers on that scorecard may have taken a little respite last year, but there will be many more such accomplishments in the years to come.

By John A. Byrne, with Lori Bongiorno, in New York

Fortunes in the Future

These chief executives still have huge rewards to reap from stock options that have yet to be exercised. The top 20 treasure chests:

EXECUTIVE/ COMPANY	VALUE OF NONEXERCISED STOCK OPTIONS*	EXECUTIVE/ COMPANY	VALUE OF NONEXERCISED STOCK OPTIONS*
MICHAEL EISNER, WALT DISNEY	$171,880,000	ANDREW GROVE, INTEL	$36,145,000
WAYNE CALLOWAY, PEPSICO	64,618,786	JOHN TOLLESON, FIRST USA	35,827,449
LAWRENCE ELLISON, ORACLE	60,518,900	REUBEN MARK, COLGATE-PALMOLIVE	33,093,694
ECKHARD PFEIFFER, COMPAQ COMPUTER	54,364,449	DANIEL TULLY, MERRILL LYNCH	30,991,969
PAUL FIREMAN, REEBOK INTERNATIONAL	54,055,000	EDWARD McCRACKEN, SILICON GRAPHICS	29,905,068
GORDON BINDER, AMGEN	49,634,253	CARL REICHARDT, WELLS FARGO	28,257,380
WILLIAM McGUIRE, UNITED HEALTHCARE	49,301,612	HARRY MERLO, LOUISIANA-PACIFIC	27,795,000
ROBERT GOIZUETA, COCA-COLA	46,440,625	ALBERT DUNLAP, SCOTT PAPER	23,343,750
JAMES DONALD, DSC COMMUNICATIONS	41,210,000	JOHN WELCH, GENERAL ELECTRIC	22,634,375
CHARLES WANG, COMPUTER ASSOC. INTL.	37,420,811	ROY VAGELOS**, MERCK	21,603,418

*Based on stock price at end of company's fiscal year **Vagelos was CEO until June, 1994 DATA: COMPANY REPORTS

Compensation Scoreboard Glossary

If the system worked perfectly, executive pay would rise when the boss delivered the goods for shareholders. And it would fall when corporate performance declined. But it doesn't always happen that way.

In this Scoreboard, BUSINESS WEEK, along with Standard & Poor's Compustat, attempts to measure how closely pay matches performance. The study uses two approaches: It compares an executive's total compensation with the company's total return to shareholders in stock appreciation and dividends over three years. A second comparison measures pay against corporate profitability for the same period. Three years of data are examined to minimize the impact of single-year windfalls.

The Scoreboard companies boast market values that are among the 500 largest in the latest BUSINESS WEEK 1000 for which 1994 compensation data are available. Each company is assigned to one of nine industry groups. Then, each executive's pay, the company's total return to shareholders, and the company's profit record are measured against the others in the group.

Pay-for-performance ratings are given only when three years of compensation data are available. On a scale of 5, 1 indicates the best performance; 5 is the worst. The top 15% of the sample receives a 1, 25% a 2, 30% a 3, 20% a 4, and 10% a 5.

1992-94 PAY-PERFORMANCE ANALYSIS

PAY VS. SHAREHOLDER'S RETURN

TOTAL COMPENSATION is the sum of an executive's salary, bonus, and long-term compensation for the three years.

VALUE OF $100 INVESTED is the yearend 1994 value of a $100 investment in the company made three years earlier, including both share-price appreciation and dividends.

RATING shows how an executive stacks up against industry peers, measured in terms of pay relative to total return to shareholders. The rating is based on an index in which the value of the investment at the end of the three-year period is divided by an executive's total pay and then compared with other executives in the same industry group.

PAY VS. CORPORATE PROFIT

ROE is the company's average return on common equity over the three-year period.

CHANGE IN ROE is the improvement or decline in the company's profitability over the 1992-94 period, expressed in terms of a percentage.

RATING shows how an executive compares with industry peers in pay for company profitability. The rating is based on an index that provides equal weight to the company's overall ROE, as well as its improvement or decline during the past three years. Both these measurements are divided by an executive's total pay and then compared with others in the same industry grouping.

Footnotes: †Indicates executive retired in 1994-95 ‡May exclude option gains in earlier years e=estimated NA=not available NM=not meaningful

The Business Week

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1994 SALES- $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE ROE	RATING
1 AEROSPACE (INDUSTRIAL: HIGH TECH)											
BOEING	21924.0	F. Shrontz, chmn. & CEO	1445	2	1026	6274	105	3	14.0	–54.4	4
	8.8	P. M. Condit, pres.	792	2	571	3454		3			4
GENERAL DYNAMICS	3058.0	J. R. Mellor, chmn. & CEO	2691	–3	8533	32786	266	4	17.7	–10.3	4
	16.9	N. D. Chabraja, exec. v-p	1242	76	279	NA		NA			NA
McDONNELL DOUGLAS	13176.0	J. F. McDonnell, chmn. & CEO*	1610	53	0	3351	199	2	16.4	71.1	2
	15.7	H. C. Stonecipher, pres. & CEO	979	NA	4657	NA		NA			NA
		*Served as CEO until 9/23/94.									
UNITED TECHNOLOGIES	21161.0	G. David, pres. & CEO	1736	17	1448	7588	126	3	9.0	NA	2
	15.0	R. F. Daniell, chmn. & CEO*	1613	–15	6835	13291		5			2
		*Served as CEO until 4/1/94.									
2 AIRLINES (TRANSPORTATION)											
AMR	16137.0	R. L. Crandall, chmn., pres. & CEO	636*	1	300	2792	76	2	–4.8	NA	3
	4.6	D. J. Carty, exec. v-p	540*	10	363	2863		4			4
		*1994 bonus has not been determined.									
DELTA AIR LINES	12198.3	R. W. Allen, chmn., pres. & CEO	484	–2	0	2136	79	1	–26.1	NA	5
	–23.2	H. C. Alger, exec. v-p-operations‡	266	18	0	794		1			5
3 APPLIANCES (CONSUMER PRODUCTS)											
WHIRLPOOL	8104.0	D. R. Whitwam, chmn. & CEO	2350	12	1072	18233	138	4	12.0	–18.3	5
	9.2	W. D. Marohn, pres. & COO	830	–12	491	6825		3			3
4 AUTOMOTIVE (CONSUMER PRODUCTS)											
CHRYSLER	50736.0	R. J. Eaton, chmn. & CEO	3324	13	2830	17343	437	2	24.6	NA	2
	34.0	R. A. Lutz, pres. & COO	2448	5	869	16826		3			3
DANA	6762.5	S. J. Morcott, chmn., pres., CEO & COO	2017	61	134	5237	187	2	15.5	NM	2
	24.3	C. H. Hirsch, exec. v-p	985	51	0	2836		1			1
EATON	6052.0	W. E. Butler, chmn. & CEO	2003	58	556	5391	164	2	16.9	268.6	2
	19.8	J. S. Rodewig, pres.	1116	44	359	3115		2			2
ECHLIN	2330.8	F. J. Mancheski, chmn. & CEO	1090	11	1065	5165	224	1	12.6	140.5	2
	15.4	C. S. Greer, pres.	464	14	345	1887		1			2
FORD MOTOR	128439.0	A. Trotman, chmn., pres. & CEO	7733*	321	267	14330	216	3	10.9	NA	3
	23.2	A. D. Gilmour, vice-chmn.†	4013*	178	974	12159		3			3
		*Includes 60% and 50% of bonus (respectively) to be paid upon termination of employment.									
GENERAL MOTORS	152171.9	J. F. Smith, Jr., pres. & CEO	3425	149	2689	8283	156	NA	10.2	NA	NA
	41.6	W. E. Hoglund, exec. v-p	1800	132	1417	4637		NA			NA
5 BANKS & BANK HOLDING COMPANIES (FINANCIAL SERVICES)											
BANC ONE	7147.0	J. B. McCoy, chmn. & CEO	1654	–20	0	7018	82	4	15.0	–7.0	3
	13.5	D. L. McWhorter, pres. & COO	1115	–7	0	4308		4			3
BANK OF BOSTON	4315.0	I. Stepanian, chmn. & CEO	2318	24	126	7963	237	2	11.7	NA	2
	15.4	C. K. Gifford, pres. & COO	1605	46	182	4639		2			2
BANK OF NEW YORK	4083.0	J. C. Bacot, chmn. & CEO	3462	22	1160	9226	205	3	14.2	390.8	2
	17.6	S. F. Chevalier, vice-chmn.	1656	29	508	5212		2			2
BANKAMERICA	15324.0	R. M. Rosenberg, chmn., pres. & CEO	3142	43	348*	8479	122	3	11.6	–22.8	4
	12.2	L. W. Coleman, vice-chmn. & CFO	1750	29	0	7270		4			4
		*Includes $348,351 paid under employment agreement.									
BANKERS TRUST NEW YORK	6526.0	C. S. Sanford, Jr., chmn. & CEO	1349	–85	2113	21747	102	5	20.1	–37.3	4
	13.6	J. A. Manganello, Jr., chief credit officer‡	1043	–60	181	5261		4			4
BARNETT BANKS	3082.2	C. E. Rice, chmn. & CEO	1738	–21	1245	8286	127	3	13.1	149.4	2
	16.1	A. L. Lastinger, Jr., pres. & COO	927	–6	585	4338		3			2
BOATMEN'S BANCSHARES	2087.2	A. B. Craig III, chmn. & CEO	933	–3	272	3856	132	1	14.3	44.5	2
	16.1	S. B. Hayes III, pres.; chmn.-sub	687	2	224	2846		2			2
CHASE MANHATTAN	8701.0	T. G. Labrecque, chmn. & CEO	3424	52	1289	10614	222	3	10.2	57.9	3
	15.5	E. M. Kruse, sr. exec. v-p	1079	43	516	3520		2			3

FOOTNOTES ON PAGE 94

EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES: $ MILLIONS / ROE: %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	TOTAL ANNUAL COMP: % CHANGE FROM 1993	LONG TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
CHEMICAL BANKING	12685.0	W. V. Shipley, chmn. & CEO	2496	11	1271	8017	189	3	13.0	NM	2
	12.4	E. D. Miller, pres.	1871	13	595	5615		3			3
CITICORP	28968.0	J. S. Reed, chmn. & CEO	4275	3	825	13737	403	2	14.9	NA	2
	22.6	W. R. Rhodes, vice-chmn.	1650	5	524	5283		1			1
CORESTATES FINANCIAL	2497.0	T. A. Jensen, chmn. & CEO	1201	6	294	4633	123	2	14.5	–23.7	3
	11.3	F. Pareco, pres.	640	30	0	1615		1			2
FIFTH THIRD BANCORP	1177.8	A. Schaefer, Jr., pres. & CEO	979	23	176	3548	113	2	16.7	11.3	1
	17.[illegible]	S. J. Schrantz, exec. v-p	512	24	70	1496		1			1
FIRST BANK SYSTEM	20[illegible]	J. F. Grundhofer, chmn., pres. & CEO	1784	36	3885	11747	151	4	12.7	30.1	3
		R. A. Zona, vice-chmn. & CFO	875	63	2489	5425		3			3
FIRST CHICAGO	[illegible]3.2	R. L. Thomas, chmn. & CEO	1769	–13	3067	8516	212	2	10.6	399.7	2
	16.3	L. F. Mullin, pres. & COO	921	–8	2576	5440		3			3
FIRST FIDELITY BANCORPORATION	2492.8	A. P. Terracciano, chmn., pres. & CEO	1150	–5	0	5178	152	2	15.2	36.4	2
	16.3	W. Schoellkopf, vice-chmn. & CFO	655	–4	0	2508		2			1
FIRST INTERSTATE BANCORP	3947.2	E. M. Carson, chmn. & CEO	2283	24	1130	7169	244	1	15.8	NA	1
	22.7	W. E. B. Siart, pres. & CEO*	1560	5	132	4705		2			1
		*Became CEO 1/1/95.									
FIRST UNION	6220.0	E. E. Crutchfield, chmn. & CEO	1763	7	1168	8770	153	3	14.5	60.4	3
	15.4	J. R. Georgius, pres.	1225	2	772	6017		4			3
HUNTINGTON BANCSHARES	1416.0	F. G. Wobst, chmn. & CEO	1447	–1	400	7375	168	3	16.6	25.2	3
	17.2	Z. Sofia, pres., treas. & COO	797	–3	522	3963		2			3
MARSHALL & ILSLEY	877.0	J. B. Wigdale, chmn. & CEO	775	0	344	3332	112	2	13.5	–40.3	3
	8.7	D. J. Kuester, pres.	653	0	340	3059		3			3
MBNA	1673.0	A. Lerner, chmn. & CEO	2042	12	1025	6500	213	2	27.9	21.6	2
	30.6	C. M. Cawley, pres.	2085	9	2649	13631		4			4
MELLON BANK	2310.0	F. V. Cahouet, chmn., pres. & CEO	1156*	–17	136	16122	147	4	13.0	–30.7	4
	9.7	W. K. Smith, vice-chmn.	513*	–22	1382	5802		4			4
		*Excludes $136,063 & $44,706 (respectively) bonus received in restricted stock.									
J. P. MORGAN	8379.0	D. Weatherstone, chmn. & CEO†	2310	–25	1959	18133	93	5	17.4	–32.7	4
	13.2	D. A. Warner III, pres.	1950	–26	1817	14470		5			4
NATIONAL CITY	2321.4	E. B. Brandon, chmn. & CEO	1151	10	1171	5414	156	2	15.6	35.0	2
	17.2	D. A. Daberko, pres. & COO	705	7	476	2835		2			2
NATIONSBANK	12910.0	H. L. McColl, Jr., chmn. & CEO	3000	15	10725	25013	123	5	14.4	479.3	4
	15.8	K. D. Lewis, pres.	1943	44	0	6108		4			3
NBD BANCORP	3399.4	V. G. Istock, chmn. & CEO	1211	44	1125	5228	103	NA	19.9	119.9	NA
	16.8	T. H. Jeffs II, pres. & COO	1046	25	1248	4985		NA			NA
NORTHERN TRUST	1302.1	D. W. Fox, chmn. & CEO	1016	–2	1189	7080	112	3	16.4	–9.1	3
	15.7	W. A. Osborn, pres. & COO	635	21	1064	3966		3			3
NORWEST	5987.2	R. M. Kovacevich, pres. & CEO	2919*	26	2190	16283	139	4	19.1	36.5	3
	23.2	L. S. Biller, exec. v-p	1369	3	688	7611		4			3
		*Excludes $507,275 incentive paid in restricted stock.									
PNC BANK	4722.6	T. H. O'Brien, chmn. & CEO	1102	–45	0	8619	105	4	15.0	18.8	3
	13.8	J. E. Rohr, pres.	632	–27	0	3802		3			3
STATE STREET BOSTON	1669.3	M. N. Carter, chmn., pres. & CEO	1220	12	986	4950	94	3	16.7	–1.2	2
	16.8	N. A. Lopardo, exec. v-p	1087	33	0	2726		3			2
SUNTRUST BANKS	3199.4	J. B. Williams, chmn. & CEO	977	29	1008	8463	129	3	14.5	4.0	3
	15.1	L. P. Humann, pres.	588	29	794	4432		3			3
U.S. BANCORP	1822.3	G. B. Cameron, chmn., pres. & CEO	759	60	73	2495	113	1	12.3	–38.5	2
	8.6	R. D. Sznewajs, exec. v-p	409	NA	0	NA		NA			NA
WACHOVIA	2923.4	L. M. Baker, Jr., pres. & CEO	922	30	928	4312	122	2	16.1	77.5	1
	16.4	A. L. Furr, exec. v-p‡	603	33	92	1793		1			1
WELLS FARGO	4828.0	C. E. Reichardt, chmn. & CEO†	2671	26	13941	19691	263	3	14.4	NM	3
	20.4	P. Hazen, pres.	1988	20	3799	8020		3			3
6 BEVERAGES (CONSUMER PRODUCTS)											
ANHEUSER-BUSCH	12053.8	A. A. Busch III, chmn., pres. & CEO	2172	18	0	10702	89	4	19.6	10.4	3
	23.4	J. E. Ritter, exec. v-p, CFO & CAO	1091	14	0	4189		3			3
COCA-COLA	16172.0	R. C. Goizueta, chmn. & CEO	4371	20	7682	41821	133	5	48.3	33.5	4
	48.8	M. D. Ivester, pres. & COO	1168	48	2620	6240		3			2
COCA-COLA ENTERPRISES	6011.0	S. K. Johnston, Jr., vice-chmn. & CEO	1701	18	2117	10654	118	3	0.9	NA	4
	5.1	H. A. Schimberg, pres. & COO	1548	21	4249*	12158		4			5
		*Includes $1.0 mil distribution from compensation agreement.									
PEPSICO	28472.4	D. W. Calloway, chmn. & CEO	3064	3	0	17259	112	4	25.1	33.3	3
	26.0	R. A. Enrico, vice-chmn.	1427	16	1340	19744		5			4
7 BUILDING MATERIALS (INDUSTRIAL: LOW TECH)											
PPG INDUSTRIES	6331.2	J. E. Dempsey, chmn. & CEO	2004	256	98	NA	159	NA	14.6	165.3	NA
	20.1	R. D. Duncan, exec. v-p	970	39	938	4098		3			2

FOOTNOTES ON PAGE 9

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES, $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP. $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
SHER[illegible]LLIAMS	3100.1	J. G. Breen, chmn. & CEO	1384	8	0	5612	130	2	16.6	19.9	2
	17.7	T. A. Commes, pres. & COO	912	15	0	4136		3			3
8 CHEMICALS (INDUSTRIAL: [illegible]CH)											
AIR PRODUCTS & CHEMICALS	3578.8	H. A. V[illegible]ner, chmn., pres. & CEO	978	9	598	4076	128	2	11.3	–17.1	3
	11.2	J. R[illegible]ett, exec. v-p	539	22	67	2809		3			4
ARCO CHEMICAL	3423.0	[illegible]Hirsig, pres. & CEO	965	25	0	2453	130	1	14.0	46.3	1
	16.2	[illegible]Oppasser, sr. v-p	568	8	0	1596		1			1
DOW CHEMICAL	2001[illegible]	[illegible]. P. Popoff, chmn. & CEO	1635	10	1590	5936	140	2	7.5	14.2	4
		W. S. Stavropoulos, pres. & COO	900	11	459	2839		2			4
DUPONT	3[illegible]	E. S. Woolard, Jr., chmn. & CEO	2025	63	1693	9038	132	4	11.9	163.0	3
	2.2	C. S. Nicandros, vice-chmn.	1448	48	698	6421		4			4
EASTMAN CHEMICA[illegible]	29.0	E. W. Deavenport, Jr., chmn. & CEO	1313	69	1051	3995	NA	NA	20.5	NA	NA
	25.9	R. W. Bourne, Jr., v-chmn. & exec. v-p‡	746	51	0	1906		NA			NA
ENGELHARD	2385.8	O. R. Smith, chmn. & CEO	1330	6	3738	15791	162	4	12.6	65.1	4
	19.2	L. D. LaTorre, pres. & COO	694	10	1220	6975		4			4
GRACE	5093.3	J. P. Bolduc, pres. & CEO*	2429	35	40**	7750	108	NA	–46.8	53.2	NA
	5.8	C. L. Hampers, exec. v-p	1576	16	0	31639		NA			NA
		*Resigned 3/95. **Excludes estimated $20 mil severance package.									
GREAT LAKES CHEMICAL	2076.0	E. Kampen, chmn., pres. & CEO*	730	–47	2979	13451	102	5	21.9	24.6	3
	21.8	R. B. McDonald, pres. & CEO	601	73	0	3649		4			2
		*Placed on disability 10/1/94.									
HERCULES	2813.0	T. L. Gossage, chmn., pres. & CEO	1560	–7	791	7397	243	2	15.3	328.1	2
	21.2	R. K. Elliott, exec. v-p & CFO	775	–1	374	2758		1			2
INTL. FLAVORS & FRAGRANCES	1315.2	E. P. Grisanti, chmn. & pres.	1155	10	94	18773	144	4	21.1	27.7	4
	22.4	H. R. Kirkpatrick, sr. v-p	610	6	258	2158		1			1
LUBRIZOL	1599.0	L. E. Coleman, chmn. & CEO	1125	23	0	5912	129	3	16.0	35.6	2
	21.1	W. G. Bares, pres. & COO	773	22	848	3441		3			3
MONSANTO	8272.0	R. J. Mahoney, chmn. & CEO	2403	15	4190	13266	114	4	11.4	160.5	4
	21.1	S. G. Gilgore, chmn. & CEO-sub.	1767	28	0	5526		4			3
MORTON INTERNATIONAL	3115.5	C. S. Locke, chmn. & CEO	12042*	470	13886	29609	153	5	13.3	40.3	5
	17.6	S. J. Stewart, chmn. & CEO	3341*	275	3635	8752		5			5
		*Includes $10.2 mil & $2.3 mil (respectively) tax reimbursement paid in connection with stock option exercise.									
NALCO CHEMICAL	1345.6	E. J. Mooney, chmn., pres. & CEO	681	18	391	2850	87	2	21.7	–32.8	2
	15.8	W. H. Clark, CEO*†	579	–40	0	5471		5			4
		*Retired 4/1/94.									
PRAXAIR	2711.0	H. W. Lichtenberger, chmn. & CEO	1339	44	0	3180	NA	NA	20.7	NA	NA
	24.2	E. G. Hotard, pres.	801	55	0	1812		NA			NA
ROHM & HAAS	3534.0	J. L. Wilson, chmn. & CEO	930	28	412	4084	141	2	13.3	32.6	2
	17.6	J. P. Mulroney, pres. & COO	645	22	303	2667		2			2
UNION CARBIDE	4865.0	R. D. Kennedy, chmn. & CEO	1838	30	4129*	10489	236	3	14.7	NA	2
	25.1	W. H. Joyce, pres. & COO	953	8	340	3567		1			1
		*Includes $1.3 mil realized from Praxair options (granted in connection with spinoff).									
9 CONGLOMERATES (INDUSTRIAL: LOW TECH)											
ALCO STANDARD	8252.4	J. E. Stuart, pres. & CEO	1400	88	0	3221	192	1	6.0	–42.1	5
	6.2	R. B. Mundt, chmn.*	1643	100	834	5188		3			5
		*Resigned 12/31/94									
ALLIEDSIGNAL	12817.0	L. A. Bossidy, chmn. & CEO	3632	36	8756	21660	163	5	25.6	NA	3
	25.5	F. M. Poses, exec. v-p	994	16	1142	6930		4			2
GENERAL ELECTRIC	59316.0	J. F. Welch, Jr., chmn. & CEO	4350	8	3259	32487	144	5	19.3	9.6	5
	22.4	P. Fresco, vice-chmn.	2125	21	0	11704		5			5
HARCOURT GENERAL	3171.1	R. J. Tarr, Jr., pres., CEO & COO	2535	9	0	9679	213	3	12.7	NA	1
	9.9	R. A. Smith, chmn.	1275	0	0	3825		2			1
ITT	23620.0	R. V. Araskog, chmn., pres. & CEO	4249	–1	0	16046	178	4	7.5	84.0	5
	15.2	D. T. Engen, exec. v-p	1263	–2	0	3062		2			3
PALL	741.3	M. G. Hardy, chmn. & CEO	783	–12	0*	2470	97	1	16.1	5.8	1
	17.3	E. Krasnoff, chmn. & CEO	521	30	293	1612		2			2
		*Excludes $271,554 paid in connection with his death (7/10/94).									
PREMARK INTERNATIONAL	3450.8	W. L. Batts, chmn. & CEO	2366*	13	9612	22473	229	4	15.0	89.6	4
	23.2	E. V. Goings, exec. v-p	1677**	158	765	3968		2			3
		*Includes $682,500 payout as long-term incentives. **Bonus excludes $764,913 paid in restricted stock.									
[illegible]TWELL [illegible]TIONAL	11145.3	D. R. Beall, chmn. & CEO	2140	24	0	8765	141	3	18.5	35.2	3
	19.2	K. M. Black, exec. v-p & COO	1088	15	180	4703		3			3
[illegible]	12174.0	D. G. Mead, chmn. & CEO*	1927	35	647	9600	151	3	–5.0	NA	2
	21.2	T. R. Tetzlaff, gen. couns.‡	700	17	539	2333		2			1
		*Became CEO 2/24/94.									
TEX	9683.0	J. F. Hardymon, chmn. & CEO	1825	9	582	6936	137	3	13.8	41.4	3
	14.5	L. B. Campbell, pres. & COO‡	980	–12	235	2716		2			2
TRW	9087.0	J. T. Gorman, chmn. & CEO	4071	20	623	15426	171	4	15.4	NA	3
	18.2	E. D. Dunford, pres. & COO*†	2618	16	41	9746		4			3
		*Retired 12/1/94.									

FOOTNOTES ON PAGE 9[illegible]

DEFINED CONTRIBUTION / 401(k) PLANS · INSTITUTIONAL MANAGEMENT · MUTUAL FUNDS

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	$ MILLIONS	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
10 CONTAINERS & PACKAGING (INDUSTRIAL: LOW TECH)											
CROWN CORK	4452.2	W. J. Avery, chmn., pres. & CEO	991	2	850	4853	126	2	12.5	–18.8	3
& SEAL	9.6	M. J. McKenna, exec. v-p	410	4	0	2625		3			4
SONOCO	2300.1	C. W. Coker, chmn., pres. & CEO	1294	26	2014	5923	136	3	17.4	9.8	3
PRODUCTS	18.5	P. C. Browning, exec. v-p‡	810	175	1365	NA		NA			NA
TEMPLE-INLAND	2938.0	[illegible]rum, chmn. & CEO	803	35	415	4175	93	3	6.8	–18.7	4
	7.3	[illegible]. Maxwell, group v-p‡	508	18	154	1599		2			4
11 DRUGS (CONSU[illegible] PRODUCTS)											
ABBOTT		D. L. Burnham, chmn. & CEO	1802	7	0	11257	100	3	37.5	10.2	3
LABORATORIES		T. R. Hodgson, pres. & COO	1278	5	0	6793		4			3
ALLERGAN	[illegible]47.2	W. C. Shepard, pres. & CEO	966	19	251	3208	120	1	19.9	NA	1
	18.3	R. M. Haugen, exec. v-p & COO	664	20	22	1802		1			1
ALZA	261.0	E. Mario, co-chmn. & CEO	610	122	0	NA	38	NA	15.9	NA	NA
	15.9	J. E. Shaw, pres. & COO	342	–2	645	3994		4			1
AMER[illegible]ME	8966.2	J. R. Stafford, chmn., pres. & CEO	2225	3	0	12752	84	4	35.4	–13.8	3
PRO[illegible]	35.9	R. G. Blount, exec. v-p	1087	3	0	3396		3			2
AM[illegible]N	1647.9	G. M. Binder, chmn. & CEO	1257	32	0	3351	78	2	31.5	31.3	1
	24.2	K. W. Sharer, pres. & COO	1001	–36	122	2946		3			1
BAUSCH & LOMB	1850.6	D. E. Gill, chmn. & CEO	1118**	–36	0	8383	63	4	12.5	–85.9	5
	1.5	R. L. Zarrella, pres. & COO*	574	–31	59	2664		3			4
		*Resigned 11/30/94. **Excludes $507,289 for reimbursed taxes.									
BAXTER	9324.0	V. R. Loucks, Jr., chmn. & CEO	1593	14	0	10279	86	4	7.4	13.8	4
INTERNATIONAL	16.0	T. L. White, exec. v-p	752	18	237	2901		2			4
BECTON	2598.9	R. V. Gilmartin, chmn., pres. & CEO*	463	–56	5479	8105	146	3	15.1	32.6	3
DICKINSON	18.3	C. Castellini, chmn., pres. & CEO	756	58	89	1966		1			2
		*Resigned [illegible]/94									
BRISTOL MYERS	11984.0	C. A. Heimbold, Jr., pres. & CEO	1910	32	332	6949	75	3	30.3	–9.0	2
SQUIBB	32.3	R. L. Gelb, chmn.	2523	10	570	13870		5			4
GENENTECH	752.6	G. K. Raab, pres. & CEO	1304	5	2148	5750	141	2	5.5	97.6	4
	9.2	A. D. Levinson, sr. v-p	515	13	177	1517		1			2
JOHNSON &	15734.0	R. S. Larsen, chmn. & CEO	1893	13	0	8090	101	3	30.6	8.5	3
JOHNSON	28.2	R. N. Wilson, vice-chmn.	1562	12	529	6508		4			3
LILLY (ELI)	5711.6	R. L. Tobias, chmn. & CEO	1858	9	963	NA	87	NA	16.6	–16.4	NA
	22.1	S. Taurel, exec. v-p & pres.-pharm.‡	1091	12	651	3671		3			3
MALLINCKRODT	2032.9	C. R. Holman, pres. & CEO	995	52	847	4399	72	3	2.8	17.0	4
GROUP	10.5	M. G. Nichols, v-p; pres.-MCI	562	21	197	2078		2			4
MEDTRONIC	1618.6	W. W. George, pres. & CEO	804	–2	491	3923	121	2	23.3	11.9	2
	22.7	G. D. Nelson, vice-chmn.	599	–2	3773	6421		3			3
MERCK	14969.8	P. R. Vagelos, chmn., pres. & CEO†	1941**	–13	1249	9259	74	4	32.5	–37.7	3
	26.9	R. V. Gilmartin, chmn., pres. & CEO*	1542	NA	778	NA		NA			NA
		*Joined company as CEO 6/16/94. **Retired 11/1/94.									
PFIZER	8281.3	W. C. Steere, Jr., chmn. & CEO	2962	55	679	8008	98	3	23.4	109.0	2
	30.0	E. C. Bessey, vice-chmn; pres.-sub.	1232	38	1351	6716		4			3
RHONE-POULENC	4174.6	R. E. Cawthorn, chmn. & CEO	1293	9	0	6320	61	3	27.4	–35.7	3
RORER	21.0	M. de Rosen, pres. & COO‡	793	226	0	NA		NA			NA
SCHERING-PLOUGH	4657.1	R. P. Luciano, chmn. & CEO	2348	13	3433	14540	120	4	51.9	22.1	2
	58.6	R. J. Kogan, pres. & COO	1367	6	2392	9293		4			2
STRYKER	681.9	J. W. Brown, chmn., pres. & CEO	715	10	0	1965	74	1	20.9	15.2	1
	21.2	D. J. Simpson, v-p, CFO & sec'y	374	11	0	6300		4			3
UPJOHN	3344.5	J. L. Zabriskie, chmn. & CEO	1531	NA	587	NA	86	NA	22.0	–21.8	NA
	20.6	L. S. Smith, pres. & COO	911	4	153	2764		2			2
WARNER-	6416.8	M. R. Goodes, chmn. & CEO	1686	20	2554	10765	108	3	33.6	217.7	2
LAMBERT	38.2	L. J. R. de Vink, pres. & COO	1117	17	125	3492		2			1
12 ELECTRICAL & ELECTRONICS (INDUSTRIAL: HIGH TECH)											
ADVANCED	2134.7	W. J. Sanders III, chmn. & CEO	4660	45	5773	44273	142	5	18.5	–1.3	5
MICRO DEVICES	17.0	R. Previte, pres. & COO	2408	49	3194	13775		4			4
AMP	4027.1	W. J. Hudson, Jr., pres. & CEO	1035	40	25	2366	132	2	15.1	16.8	2
	15.9	J. E. Marley, chmn.	865	30	92	2499		2			2
COOPER INDUSTRIES	4588.0	R. Cizik, chmn. & CEO	895	–28	0	4262	67	4	10.2	–11.6	3
	9.0	H. J. Riley, Jr., pres. & COO	488	–26	0	1916		3			3
EMERSON ELECTRIC	8882.3	C. F. Knight, chmn. & CEO	2015	6	9738	25102	122	5	18.2	–2.7	4
	18.9	A. E. Suter, sr. vice-chmn. & COO	975	6	0	4843		3			3
[illegible]	2036.3	D. F. Akerson, chmn. & CEO	1633	84	92	NA	NA	NA	15.2	NA	NA
[illegible]	36.7	R. S. Friedland, pres. & COO‡	748	89	0	1867		NA			5
[illegible]	11521.0	A. S. Grove, pres. & CEO	2102	–4	0	10347	263	3	25.0	33.2	3
	24.7	C. R. Barrett, exec. v-p & COO	1555	–1	0	11541		4			3

FOOTNOTES ON PAGE 9

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COMPANY	SALES: $ MILLIONS / ROE: %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP. $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
LINE[illegible]	227.7	R. H. Swanson, Jr., pres. & CEO	751	25	0	1878	305	1	23.2	42.6	1
T[illegible]LOGY	26.9	C. B. Davies, v-p & COO	626	21	695	2916		1			1
[illegible]SI LOGIC	901.8	W. J. Corrigan, chmn. & CEO	1148	21	2174	4779	497	2	–5.8	601.2	3
	20.0	B. L. Halla, exec. v-p	562	15	1088	2869		1			3
		May contain data from preliminary source.									
MICRON TECHNOLOGY	1843.5	J. L. Parkinson, chmn. & CEO*	1381	66	455	5129	785	1	19.4	NM	1
	40.7	[illegible] Garrett, pres. & COO*	1146	75	2122	6386		1			1
		Both executives resigned 09/26/94.									
MOLEX	104[illegible]	F. A. Krehbiel, chmn. & CEO	468	17	103	1598	151	2	10.5	–2.5	2
		G. Tokuyama, v-p; pres.-sub.	466	17	194	1875		2			2
MOTOROLA	[illegible]	G. L. Tooker, vice-chmn. & CEO	1985	22	0*	13340	360	3	14.8	74.9	3
	17.2	C. B. Galvin, pres. & COO	1490	38	2964*	6325		2			3
		*1994 long-term incentives have not been determined.									
NATIONAL SEMICONDUCT[illegible]	2292.3	G. F. Amelio, pres. & CEO	1442	–24	2775	6919	300	2	18.9	NA	1
	21.4	K. P. Pond, exec. v-p & COO	710	19	900	2635		1			1
SENSORM[illegible] ELECTR[illegible]	761.5	R. G. Assaf, chmn., pres. & CEO	890	13	4105	15139	195	4	NA	–25.3	NA
	9.2	M. E. Pardue, exec. v-p, CFO & COO	446	21	926	4062		2			NA
TEX[illegible] I[illegible]UMENTS	10315.0	J. R. Junkins, chmn., pres. & CEO	1928	35	2090	7628	251	2	18.2	NA	1
	22.7	W. P. Weber, vice-chmn.	995	27	921	4015		2			1
WESTINGHOUSE ELECTRIC	8848.0	M. H. Jordan, chmn. & CEO	1357*	50	205	NA	75	NA	–1.8	NA	NA
	1.5	W. C. Korn, chmn. & CEO-Broadcasting	918	27	74	NA		NA			NA
		*Excludes $343,446 bonus paid in stock options.									
13 FOOD PROCESSING (CONSUMER PRODUCTS)											
ARCHER-DANIELS-MIDLAND	12176.2	D. O. Andreas, chmn. & CEO	3171	11	0	8951	109	3	11.3	–1.5	4
	11.7	J. R. Randall, pres.	1462	13	0	4127		3			4
CAMPBELL SOUP	6937.0	D. W. Johnson, chmn., pres. & CEO	1810	5	81	10888	111	3	23.0	32.9	3
	29.8	F. E. Weise III, sr. v-p-finance & CFO	600	–5	0	2921		2			2
CONAGRA	24004.2	P. B. Fletcher, chmn. & CEO	1600	30	2869	11223	94	4	18.2	17.3	3
	18.3	A. Crosson, pres. & COO	935	3	830	6122		4			4
CPC INTERNATIONAL	7425.4	C. R. Shoemate, chmn., pres. & CEO	1202	7	1304	6121	126	2	23.7	–19.4	3
	19.7	R. J. Gillespie, sr. v-p	669	3	1030	4439		2			3
GENERAL MILLS	6151.3	H. B. Atwater, Jr., chmn. & CEO	850	–39	60	18831	85	5	36.7	–24.5	4
	27.9	M. H. Willes, vice-chmn.	706	–27	68	5290		4			3
HEINZ (H. J.)	7610.8	A. J. O'Reilly, chmn., pres. & CEO	895	–11	824	41096	104	5	24.2	–10.9	5
	24.0	L. Ribolla, sr. v-p‡	425	4	396	NA		NA			NA
HERSHEY FOODS	3606.3	K. L. Wolfe, chmn. & CEO	897	17	357	3553	117	2	16.8	–22.2	3
	12.8	J. P. Viviano, pres. & COO	678	20	276	2728		2			3
HORMEL FOODS	3079.3	J. W. Johnson, pres. & CEO	985	19	0	2468	122	1	17.3	31.1	1
	19.4	D. J. Hodapp, exec. v-p & CFO	657	15	218	2562		2			2
KELLOGG	6562.0	A. G. Langbo, chmn. & CEO	1489*	17	0	5695	95	3	38.0	39.1	2
	39.0	T. A. Knowlton, exec. v-p	717	20	0	2489		2			1
		*Excludes portion of bonus paid in 10,000 stock options.									
PET	1576.3	M. L. Marsh, chmn. & CEO	1023	11	0	4271	87	2	27.5	369.7	1
	31.1	J. C. Elbin, sr. v-p & CFO	394	9	0	1549		1			1
QUAKER OATS	6211.1	W. D. Smithburg, chmn. & CEO	1398	–10	346	9136	90	3	40.7	62.6	2
	41.8	P. A. Marineau, pres. & COO	1014	–2	204	5131		3			2
RALSTON PURINA GROUP	5548.5	W. P. Stiritz, chmn., pres. & CEO	1363	16	0	3689	110	2	NA	–11.8	NA
	41.8	J. P. Mulcahy, v-p	452	6	0	1669		1			NA
SARA LEE	16668.0	J. H. Bryan, chmn. & CEO	1736	–8	237	23522	93	5	15.5	–66.4	5
	6.4	M. E. Murphy, vice-chmn. & CFO	927	2	0	9883		5			5
SYSCO	11556.5	J. F. Woodhouse, chmn. & CEO	1015*	5	509	4117	114	2	17.3	7.3	2
	18.0	B. M. Lindig, pres. & COO	887*	6	535	3921		2			3
		*Excludes portion of bonus received in restricted stock.									
TYSON FOODS	5283.8	L. E. Tollett, vice-chmn., pres. & CEO	1174	96	0	3049	106	2	10.0	–97.5	5
	0.4	D. Tyson, chmn.	2146*	24	0	6222		3			5
		*Includes $723,756 other annual compensation related to travel and entertainment.									
WRIGLEY (WM.) JR.	1596.6	W. Wrigley, pres. & CEO*	475	–46	24	4108	192	1	31.2	20.6	1
	33.5	R. D. Ewers, exec. v-p*	377	–39	561	3106		1			2
		*Excludes 1994 bonus & other long-term awards not yet determined.									
14 FOOD & LODGING (SERVICE)											
HILTON HOTELS	1456.1	B. Hilton, chmn. & CEO	1000	–1	0	3105	177	2	10.3	22.0	3
	10.8	R. C. Avansino, Jr., pres. & COO	942	21	0	NA		NA			NA
[illegible] MARRIOTT	8415.0	J. W. Marriott, Jr., chmn., pres. & CEO	1434	4	134	4619	NA	NA	NA	NA	NA
	26.1	W. J. Shaw, exec. v-p	835	4	148	3212		NA			NA
[illegible]	1339.4	P. G. Satre, pres. & CEO	847	23	513	2703	421	1	12.4	0.2	2
	8.0	M. D. Rose, chmn. & CEO*	1181	7	0	3160		1			4
		May contain data from preliminary source. *Served as CEO until 4/29/94.									

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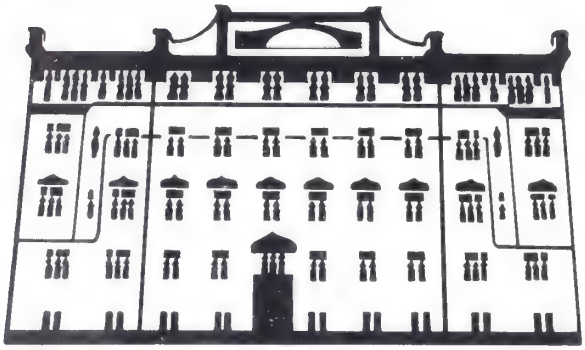

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
17 GENERAL & SPECIAL MACHINERY (INDUSTRIAL: LOW TECH)											
APPLIED MATERIAL	1825.5	J. C. Morgan, chmn. & CEO	1283	–15	4331	23818	479	3	16.1	191.1	4
	23.5	J. W. Bagley, vice-chmn. & COO	1031	47	3135	13846		3			4
BLACK & DECKER	5248.3	N. D. Archibald, chmn., pres. & CEO	1688	3	495	5237	147	2	3.8	99.8	4
	11.4	G. T. DiCamillo, group v-p	609	18	109	1645		1			3
CATERPILLAR	14328.0	D. V. Fites, chmn. & CEO	1573	56	192	3917	256	1	16.6	NA	1
	32	J. W. Wogsland, vice-chmn.	1037	41	1515	4647		2			1
DEERE	94[illegible]	H. W. Becherer, chmn. & CEO	1639	79	1719	6754	151	3	11.7	NA	2
		D. H. Stowe, Jr., pres. & COO	1091	73	1409	4511		3			2
DOVER	[illegible]85.3	T. L. Reece, pres. & CEO	850	35	209	3074	134	1	18.2	31.3	1
	20.3	G. L. Roubos, chmn. & CEO*	750	–18	389	4959		4			3
		*Served as CEO until 5/1/94									
DRESSER INDUSTRIES	5250.1	J. J. Murphy, chmn. & CEO	1749	19	122	5045	111	3	11.4	67.7	2
	13.3	W. E. Bradford, pres. & COO	960	10	57	2596		3			2
FMC	4010.8	R. N. Burt, chmn. & CEO	1168	33	0	6010	121	3	49.5	–25.5	1
	41.6	L. D. Brady, pres.	743	33	0	2500		3			1
IN[illegible]L-RAND	4507.5	J. E. Perella, chmn., pres. & CEO	1245	46	1178	5060	122	2	11.6	49.5	3
	13.8	J. F. Travis, exec. v-p‡	614	7	584	2562		3			3
TYCO INTL.	3821.8	L. D. Kozlowski, chmn., pres. & CEO	1390	45	0	3297	142	1	9.0	–23.6	3
	9.9	J. C. Armacost, v-p	1059	102	0	2073		1			4
16 INSTRUMENTS (INDUSTRIAL: HIGH TECH)											
HONEYWELL	6057.0	M. R. Bonsignore, chmn. & CEO	1062	13	109	6682	105	3	18.5	–15.9	3
	15.0	D. L. Moore, pres. & COO	974	12	0	3854		3			3
17 LEISURE TIME INDUSTRIES (CONSUMER PRODUCTS)											
BRUNSWICK	2700.1	J. F. Reichert, chmn., pres. & CEO	1742	18	551	5515	146	2	8.6	NA	2
	14.2	J. M. Charvat, exec. v-p	685	20	533	2663		2			2
CARNIVAL	1806.0	M. M. Arison, chmn. & CEO	911	31	0	2301	168	1	19.9	–8.7	2
	19.8	A. K. Lanterman, pres.	1035	–8	0	2985		1			3
WALT DISNEY	10629.5	M. D. Eisner, chmn. & CEO	8019	969	2638	221127	163	5	17.5	32.6	5
	21.8	F. G. Wells, pres. & COO‡	2677	569	0*	6832		3			4
		*Excludes $2.8 mil paid in connection with his death (4/3/94).									
EASTMAN KODAK	13557.0	G. M. C. Fisher, chmn., pres. & CEO	3901	705	2064*	NA	135	NA	14.4	NM	NA
	13.8	L. J. Thomas, exec. v-p	1107	24	0	2976		2			2
		*Includes $2.1 mil loan forgiveness.									
HARLEY-DAVIDSON	1541.8	R. F. Teerlink, pres. & CEO	1180	17	0	5333	252	1	15.9	66.9	2
	25.9	J. L. Bleustein, pres. & COO	584	–4	0	2460		1			2
HASBRO	2670.3	A. G. Hassenfeld, chmn., pres. & CEO	1158	–23	0	6954	110	3	15.1	55.6	3
	13.3	G. R. Ditomassi, Jr., COO	677	–15	538	4138		3			3
MATTEL	3205.0	J. W. Amerman, chmn. & CEO	1783	–21	5775	20305	145	4	21.9	–14.1	4
	23.1	J. E. Barad, pres. & COO	1361	–20	3245	10028		4			4
18 METALS & MINING (RESOURCES)											
ALUMINUM CO. OF AMERICA	9904.3	P. H. O'Neill, chmn. & CEO	1450	39	1437	7123	142	3	3.9	800.9	2
	11.2	A. J. P. Belda, exec. v-p	674	43	672	NA		NA			NA
FREEPORT-McMORAN	1982.4	J. R. Moffett, chmn. & CEO	4938	310	574	13201	112	5	NA	NA	NA
	NA	R. L. Latiolais, pres. & COO	3049	194	233	7265		5			NA
NEWMONT MINING	597.4	R. C. Cambre, chmn., pres. & CEO	835	439	154	NA	116	NA	13.1	–80.3	NA
	9.2	W. W. Murdy, sr. v-p & CFO‡	331	2	47	1112		1			5
PHELPS DODGE	3289.2	D. C. Yearley, chmn., pres. & CEO	1145	28	2166	10806	199	3	12.4	–14.3	3
	12.6	J. S. Whisler, sr. v-p	541	10	1176	4288		2			2
REYNOLDS METALS	5879.1	R. G. Holder, chmn. & CEO	979	70	0	2096	96	1	–6.7	–4.7	5
	5.0	J. J. Sheehan, pres. & COO	554	98	15	1120		1			5
19 MISCELLANEOUS MANUFACTURING (INDUSTRIAL: LOW TECH)											
AVERY DEN[illegible]	2856.7	C. D. Miller, chmn. & CEO	1545	25	1474	7173	151	3	12.2	96.5	3
	15.0	P. M. Neal, pres. & COO	940	25	384	2909		2			2
CORNING	4799.2	J. R. Houghton, chmn. & CEO	1555	31	1079	5789	83	4	8.7	–19.3	4
	12.3	R. G. Ackerman, pres.	1176	35	791	4931		5			5
DURACELL INTERNATIONAL	1995.5	C. R. Kidder, chmn. & CEO*	1349	30	9280	25657	131	5	15.6	207.2	5
	17.7	C. R. Perrin, pres. & COO**	849	18	2096	12350		5			5
		*Left company 10/1/94.**Became CEO 10/1/94.									
HILLENBRAND [illegible]STRIES	1577.0	W. A. Hillenbrand, pres. & CEO	716	–40	0	4925	83	3	17.6	–29.0	3
	12.9	L. M. Smith, sr. exec. v-p	499	–43	0	3672		4			4
[illegible]OL	3461.3	J. D. Nichols, chmn. & CEO	1402	20	1043	7079	142	3	16.3	21.0	3
	18.0	H. R. Crowther, vice-chmn.	569	7	1044	3597		3			3
[illegible]	683.9	J. J. Russell, pres. & CEO	572	3	0	16581	139	4	27.7	2.1	4
[illegible]	24.9	R. M. McMonigle exec. v-p	350	–9	412	4982		4			3

FOOTNOTES ON PAGE 9

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JOH[illegible]	7143.1	J. H. Keyes, chmn. & CEO	1291	14	841	4882	148	2	13.6	56.7	2
[illegible]ULS	15.3	J. M. Barth, exec. v-p	636	10	145	2462		2			2
[illegible]INNESOTA MINING	15079.0	L. D. DeSimone, chmn. & CEO	1226	22	1704	7170	123	3	19.3	7.1	3
& MFG.	19.6	H. A. Hammerly, exec. v-p	699	16	948	4888		4			3
NEWELL	2074.9	W. P. Sovey, vice-chmn. & CEO	1109	13	0	3131	96	2	17.8	–5.8	2
	17.4	T. A. Ferguson, Jr., pres. & COO	816	19	641	3367		3			3
PARKER-HANNIFIN	2827.4	[illegible] E. Collins, pres. & CEO	1074	68	105	2174	158	1	8.0	62.5	2
	10[illegible]	D. W. Sullivan, exec. v-p	834	48	317	2336		1			3
RUBBERMAID	2[illegible]	W. R. Schmitt, chmn. & CEO	1403	17	845	5404	78	4	17.8	–3.4	2
		C. A. Carroll, pres. & COO	723	38	362	2347		3			2
20 NATURAL [illegible]OURCES (RESOURCES)											
AMERADA HESS	[illegible]28.5	L. Hess, chmn. & CEO	300	0	0	900	100	1	–2.4	–12.4	4
	2.4	R. F. Wright, pres. & COO	1025	0	990	4175		4			4
AMOCO	26048.0	H. L. Fuller, chmn., pres. & CEO	864*	–48	1020	5116	134	3	10.8	50.1	2
	12.4	L. D. Thomas, vice-chmn.	520*	–45	263	3042		2			2
		*1994 bonus has not been determined									
A[illegible]RKO	482.5	R. J. Allison, Jr., chmn., pres. & CEO	1568	10	68	5639	164	3	4.5	–9.6	4
[illegible]ROLEUM	4.6	C. G. Manley, sr. v-p-administration	428	14	14	2828		2			3
ASHLAND OIL	9667.0	J. R. Hall, chmn. & CEO	1642	35	389	4269	126	2	5.7	16.4	3
	11.7	P. W. Chellgren, pres. & COO	1089	39	237	2788		2			2
ATLANTIC RICHFIELD	15035.0	L. M. Cook, chmn. & CEO*	2449	33	14	6212	111	3	12.2	41.2	2
	14.6	M. R. Bowlin, pres., CEO & COO‡	1438	30	12	4682		4			2
		*Served as CEO until 6/30/94									
BURLINGTON	1054.8	T. H. O'Leary, chmn., pres. & CEO	1592	1	400	15988	121	5	7.9	–11.6	4
RESOURCES	6.0	B. S. Shackouls, pres. & CEO-sub.	714	74	0	NA		NA			NA
CHEVRON	30340.0	K. T. Derr, chmn. & CEO	1700	–6	1403	7697	145	3	12.2	32.2	2
	11.6	J. D. Bonney, vice-chmn.	995	–2	787	4418		3			2
EXXON	99683.0	L. R. Raymond, chmn. & CEO	1866	13	1614	10609	114	4	14.2	–14.7	3
	13.5	C. R. Sitter, pres.	1370	17	1740	9434		5			3
MOBIL	58995.0	L. A. Noto, chmn., pres., CEO & COO	1408	12	1460	7230	139	3	9.9	–5.5	3
	10.1	A. E. Murray, chmn. & CEO	367	–86	5220*	14064		5			4
		*Includes $2 [illegible] management retention cash compensation with retirement 1/31/94									
OCCIDENTAL	9236.0	R. R. Irani, chmn., pres. & CEO	3419	–7	2421	17487	124	5	0.3	–141.3	4
PETROLEUM	–3.6	D. R. Laurance, exec. v-p	1155	5	425	4490		3			4
PENNZOIL	2562.9	J. L. Pate, chmn., pres. & CEO	831	–15	133	3181	94	2	–3.8	–784.0	5
	–23.6	T. M. Hamilton, group v-p-oil & gas	395	–14	82	1548		2			5
PHILLIPS	12211.0	W. W. Allen, chmn. & CEO	1581	119	345*	3478	150	2	11.8	361.1	1
PETROLEUM	16.4	C. J. Silas, chmn. & CEO†	742	–52	30*	5051		3			2
		*1994 long-term incentives awards have not been determined.									
SUN	7702.0	R. H. Campbell, chmn., pres. & CEO	772	–31	0	2543	112	2	0.9	NA	1
	5.2	D. E. Knoll, sr. v-p	354	–24	10	1143		1			1
TEXACO	32781.0	A. C. DeCrane, Jr., chmn. & CEO	1532	–10	1279	9312	113	4	11.0	–24.4	3
	9.9	A. J. Krowe, vice-chmn. & CFO	1033	–8	707	5102		4			3
USX-MARATHON	12757.0	C. A. Corry, chmn. & CEO-USX Corp.*	2186	28	80	5533	77	4	NA	NA	NA
GROUP	10.0	V. G. Beghini, v-chmn.; pres.-Marathon	1109	21	9	3482		4			NA
		*Same compensation also listed under USX-U. S. Steel.									
21 NONBANK FINANCIAL (FINANCIAL SERVICES)											
AETNA LIFE	17524.7	R. E. Compton, chmn., pres. & CEO	1075	–19	1	4124	126	2	–0.1	24.2	5
& CASUALTY	8.5	D. P. Kearney, exec. v-p	700	–10	219	2457		2			5
AFLAC	6110.8	D. P. Amos, pres. & CEO	1726	10	1938	12950	139	4	17.2	3.8	4
	16.7	P. S. Amos, chmn.	1949	15	1773	10708		5			4
ALLSTATE	21464.3	W. E. Hedien, chmn. & CEO	767	–49	2530*	6624	NA	NA	3.8	NA	NA
	5.7	J. D. Choate, chmn. & CEO	542	–24	0	1766		NA			NA
		*Includes $[illegible] awards in retirement in 6/94									
AMERICAN EXPRESS	14282.0	H. Golub, chmn. & CEO	3077	13	1800	15373	176	4	15.3	107.9	3
	21.9	J. E. Stiefler, pres.	2255	14	1793	10395		4			4
AMERICAN GENERAL	4841.0	H. S. Hook, chmn. & CEO	1960	11	624	10810	142	4	10.4	34.1	4
	14.8	J. R. Tuerff, pres.	750	29	112	2745		2			3
[illegible]AMERICAN INTL.	20740.5	M. R. Greenberg, chmn. & CEO	3750	61	8330	24319	151	5	12.9	–0.4	4
	13.4	E. E. Matthews, vice-chmn.-finance	767	15	3580	7591		4			4
		*[illegible]									
[illegible]	4156.9	P. G. Ryan, chmn., pres. & CEO	1384	16	0	3659	135	1	12.2	7.8	2
	14.6	H. N. Medvin, exec. v-p, CFO & treas.	687	17	0	1787		1			2
[illegible]	3304.3	J. E. Cayne, pres. & CEO	7666	–8	6906	45216	122	5	20.6	–26.2	5
	11.1	A. C. Greenberg, chmn.	10981	–8	3591	46319		5			5

FOOTNOTES ON PAGE 94

When was the last time the British were this excited about anything?

Such festivity is understandable.

Not merely because the 1995 Range Rover 4.0 SE is the first entirely new Range Rover in 25 years. But also because there's never been a vehicle like it.

Off-road, its new 4.0-liter V8 engine, along with second-generation electronic traction control and all-terrain ABS, makes it easier than ever to gracefully conquer minor obstacles.

Like Guatemala.

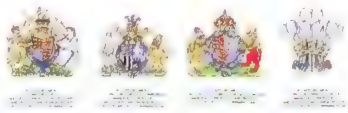
And on-road, the new Range Rover not only puts other 4x4's to shame, it also out-amenities other luxury cars.

The fact is, from dual airbags to the Range Rover's unique electronic air suspension, we rethought, redesigned, and upgraded virtually 100% of every system, and every last feature and function in the Range Rover, to create the Range Rover 4.0 SE.

Of course, this new Range Rover also comes with a new price of $54,000.*

To understand why many people already consider this reasonable for a vehicle so exceptional, we urge you to call 1-800-FINE 4WD for a dealer near you.

After all, we may not come out with another new Range Rover until 2020.



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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES $ MILLIONS ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
BER[illegible]L	4127.0	W. E. Buffett, chmn. & CEO	100	0	0	300	225	1	5.4	–27.2	1
[illegible]WAY	4.3	M. D. Hamburg, v-p & CFO	205	21	0	513		1			1
BLOCK (H&R)	1329.1	T. M. Bloch, pres. & CEO	746	18	300	3567	107	2	28.8	33.7	1
	35.4	H. W. Bloch, chmn.	690	–4	343	3510		3			1
CHUBB	5695.5	D. R. O'Hare, chmn. & CEO	1393	0	289	6441	107	3	12.1	–20.2	3
	12.4	R. D. Smith, pres.	920	–6	193	4297		4			4
CIGNA	18392.0	[illegible] H. Taylor, chmn., pres. & CEO	1723	118	222	6488	119	3	6.3	21.5	4
	[illegible]	J. G. Stewart, exec. v-p & CFO	997	122	118	3320		3			4
CINCINNATI FINANCIAL	[illegible]	R. B. Morgan, pres. & CEO	896	3	129	4709	153	2	10.3	2.2	3
	[illegible]	J. J. Schiff, Jr., chmn.	482	3	51	1982		1			2
CNA FINANCIAL	[illegible]	D. H. Chookaszian, chmn. & CEO	1242	–16	0	3533	66	3	–2.9	–94.2	5
	0.7	P. L. Engel, pres.	826	–3	0	2352		3			5
DEAN WITTER DISCOVER	[illegible]2.3	P. J. Purcell, chmn. & CEO	3200	2	0	13165	NA	NA	17.4	NA	NA
	18.4	R. M. DeMartini, pres.	2100	0	0	7890		NA			NA
EQUIFAX	1422.0	C. B. Rogers, Jr., chmn. & CEO	554*	7	1668	5526	177	2	30.4	115.4	1
	33.3	D. W. McGlaughlin, pres. & COO	557*	14	1103	3550		2			1
		*Excludes $769,697 & $221,214 (respectively) bonus received in restricted stock.									
E[illegible]E	6447.3	R. H. Jenrette, chmn. & CEO‡	7730	–36	900	27965	NA	NA	5.5	NA	3
	11.3	J. J. Melone, pres. & COO‡	2680	36	800	7282		NA			2
		May contain data from preliminary source.									
FIRST FINANCIAL MGMT.	2204.7	P. H. Thomas, chmn., pres. & CEO	6910	10	0	21369	226	4	7.8	30.4	4
	11.7	R. D. Jackson, vice-chmn. & COO	745	3	353	2512		1			3
FIRST USA	898.2	J. C. Tolleson, chmn. & CEO‡	1040	26	531	8632	NA	NA	16.3	683.4	2
	21.0	R. W. Vague, pres.‡	650	40	531	4642		NA			2
FRANKLIN RESOURCES	844.0	C. B. Johnson, pres. & CEO	743	16	0	1942	129	1	25.6	–4.5	1
	25.9	M. L. Flanagan, sr. v-p & CFO	1050	–81	700	NA		NA			NA
GENERAL RE	3837.0	R. E. Ferguson, chmn., pres. & CEO	1458	6	1410	8274	127	3	13.9	–18.5	4
	13.5	J. C. Etling, vice-chmn.	1016	15	273	3517		3			3
		May contain data from preliminary source.									
GOLDEN WEST FINANCIAL	1905.3	H. M. Sandler, chmn. & CEO*	901	5	227	7899	83	4	13.7	–30.0	4
	11.5	M. O. Sandler, chmn. & CEO*	901	5	1250	10621		5			4
		*Both executives hold the title of CEO.									
GREAT WESTERN FINANCIAL	2998.0	J. F. Montgomery, chmn. & CEO	1674	31	0	9098	104	4	4.3	–30.3	5
	9.3	J. F. Maher, pres. & COO	1186	25	0	6501		4			5
HOUSEHOLD INTERNATIONAL	4603.3	D. C. Clark, chmn. & CEO	1877	7	921	8952	159	3	12.8	94.1	3
	15.4	W. F. Aldinger, pres. & CEO	686	NA	1960	NA		NA			NA
JEFFERSON-PILOT	1268.8	D. A. Stonecipher, pres. & CEO‡	1119	13	204	2772	150	1	12.6	16.1	1
	13.1	K. C. Mlekush, sr. v-p	478	–1	66	1154		1			1
		May contain data from preliminary source.									
LOEWS	13083.5	P. R. Tisch, co-chmn. & co-CEO	1937	2	26	5596	82	3	4.8	–68.9	5
	5.0	J. S. Tisch, pres. & COO	697	26	26	1825		2			5
MARSH & McLENNAN	3435.0	A. J. C. Smith, chmn. & CEO	2101	20	1150	12458	107	4	26.0	–11.4	3
	26.2	L. J. Lasser, pres.-Putnam Investments	11320	185	368	22774		5			4
MERRILL LYNCH	18233.1	D. P. Tully, chmn. & CEO	4840	–28	1059	20503	128	4	21.9	11.0	4
	19.7	D. H. Komansky, pres. & COO	3200	–28	626	13210		5			4
PROGRESSIVE	2406.6	P. B. Lewis, chmn., pres. & CEO	2063	–18	0	6723	198	2	25.9	238.4	1
	24.9	M. C. Murr, Chief Investment Officer‡	2316	22	1000	5683		3			2
PROVIDIAN	3011.5	I. W. Bailey II, chmn. & CEO	1190	4	1540	6332	104	3	14.3	–5.9	3
	13.6	S. J. Mehta, pres. & COO	814	15	620	3639		3			3
SAFECO	3537.1	R. H. Eigsti, chmn., pres. & CEO	601	6	467	2947	118	1	13.1	–4.9	2
	11.1	B. A. Dickey, exec. v-p & CFO	385	7	287	1882		2			2
SALOMON	6278.0	R. E. Denham, chmn. & CEO	1000	–26	0	4369	129	2	6.7	–191.4	5
	–12.6	R. H. Mundheim, exec. v-p‡	1048*	2	276	3042		2			5
		*Includes $798,000 guaranteed bonus under employment contract.									
SCHWAB (CHARLES)	1262.8	C. R. Schwab, chmn. & CEO	3273	3	0	9629	175	3	31.1	17.1	2
	29.0	D. S. Pottruck, pres. & COO	1321	–5	1578	5400		3			2
ST. PAUL	4701.3	D. W. Leatherdale, chmn., pres. & CEO	1294	11	420	3962	135	1	6.3	1.4	3
	15.9	P. A. Thiele, exec. v-p & CFO	694	22	566	2231		2			3
TORCHMARK	1922.6	R. K. Richey, chmn. & CEO	1936	–9	0	30651	100	5	21.5	–3.2	4
	21.6	K. A. Tucker, vice-chmn.	1100	0	0	3260		3			2
TRANSAMERICA	5355.0	F. C. Herringer, pres. & CEO	1537	–14	233	5439	140	2	13.8	403.0	2
	15.7	D. R. Carpenter, exec. v-p	1144	1	0	4005		3			2
[illegible]	18464.7	S. I. Weill, chmn. & CEO	3903	–9	8266	132614	172	5	15.2	8.0	5
	15.8	R. F. Greenhill, chmn. & CEO-Smith Barney	5080	28	2129	NA		NA			NA
[illegible]	1365.5	R. C. Vie, pres. & CEO	481	20	0	1246	131	1	7.1	15.9	1
	8.4	J. W. Burkett, v-p	311	10	0	NA		NA			NA
[illegible] EQUIPMENT & COMPUTERS (INDUSTRIAL: HIGH TECH)											
[illegible]	9551.9	M. H. Spindler, pres. & CEO	934	–6	0	6357	72	4	15.5	2.0	3
	17.9	I. Diery, exec. v-p	604	–10	0	3178		4			2

FOOTNOTES ON PAGE 9[illegible]

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	REVS. $ MILLIONS	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
AT[illegible]C DATA PROCESSING	2634.2	J. S. Weston, chmn. & CEO	1069	6	1792	16764	132	4	19.5	–11.9	4
	19.0	A. F. Weinbach, pres. & COO	616	14	1474	6307		4			3
CISCO SYSTEMS	1540.2	J. P. Morgridge, pres. & CEO	386	7	0	1078	424	1	34.0	–7.1	1
	31.5	J. T. Chambers, exec. v-p	346	10	14681	34797		4			4
COMPAQ COMPUTER	10866.0	E. Pfeiffer, pres. & CEO	5050*	102	9642**	22629	449	3	17.2	248.1	3
	23.6	G. Stimac, sr. v-p	1000	14	14228**	22787		4			4
		*Includes $1.5 mil for reimbursement of taxes. **Excludes $750,000 & $225,000 unfunded deferred bonus (respectively).									
COMPUTER ASSOCIATES INTL.	2454.7	C. B. Wang, chmn. & CEO	6729	82	0	13179	430	3	28.1	73.8	2
	28	S. Kumar, pres. & COO	2090	124	881	4492		2			2
DIGITAL EQUIPMENT	[illegible]	R. B. Palmer, pres. & CEO	900	22	0	NA	60	NA	–39.4	NA	NA
	65.1	G. T. Brebach, Jr., v-p	978	192	0*	NA		NA			NA
		*Excludes $350,000 severance to be paid.									
FIRST DATA	1652.2	H. C. Duques, chmn. & CEO	420	2	0	1902	NA	NA	18.8	–1.6	2
	20.5	W. M. Hoff, exec. v-p	309	–49	0	1518		NA			1
HEWLETT-PACKARD	26613.0	L. E. Platt, chmn., pres. & CEO	1179	35	2182	5687	180	3	14.4	70.5	2
	17.7	R. P. Wayman, exec. v-p & CFO‡	686	17	1045	3385		2			2
IBM	64052.0	L. V. Gerstner, Jr., chmn. & CEO	4600	65	7753*	NA	91	NA	–18.3	NA	NA
	13.2	P. J. Rizzo, vice-chmn.†	2300	34	0	NA		NA			NA
		*Includes $7.8 mil paid to cover RJR stock options (employment agreement).									
MICROSOFT	5266.0	W. H. Gates III, chmn. & CEO	458	9	0	1161	165	1	NA	NA	NA
	29.4	B. P. Vergnes, sr. v-p	497	20	0	16933		5			NA
NOVELL	2003.0	R. J. Frankenberg, chmn. & CEO	775*	NA	612	NA	57	NA	11.8	–55.2	NA
	12.2	J. A. Marengi, exec. v-p	500	43	316	1496		3			5
		*Includes $300,696 paid in connection with relocation (became CEO 4/4/94).									
ORACLE SYSTEMS	2377.7	L. J. Ellison, pres. & CEO	2410	12	0	5660	609	2	35.5	191.7	2
	41.2	R. J. Lane, exec. v-p	1223	24	0	NA		NA			NA
PARAMETRIC TECHNOLOGY	262.8	S. C. Walske, chmn. & CEO	726	12	8179	34076	229	5	27.7	9.5	4
	26.9	S. P. Geisberg, chmn. & exec. v-p*	1401**	116	16943	39672		5			4
		*Resigned 8/19/94. **Bonus includes $700,000 payable in connection with resignation.									
PITNEY BOWES	3270.6	G. B. Harvey, chmn., pres. & CEO	1390	10	2144	9303	109	4	19.3	24.9	3
	20.0	M. C. Breslawsky, vice-chmn.	889	22	451	4163		3			2
SEAGATE TECHNOLOGY	3973.0	A. F. Shugart, chmn., pres., CEO & COO	1161*	21	4447	8314	263	3	14.7	119.8	3
	18.0	D. L. Waite, sr. v-p & CFO	755*	20	98	3030		2			2
		*Includes one extra pay period.									
SILICON GRAPHICS	1761.0	E. R. McCracken, chmn. & CEO	1256	33	0	5912	276	2	1.4	81.2	4
	17.2	T. A. Jermoluk, pres. & COO	911	46	4765	9300		3			4
SUN MICROSYSTEMS	5347.5	S. G. McNealy, chmn., pres. & CEO	1215	87	125	4448	125	3	11.9	–8.3	3
	14.4	E. J. Zander, pres.-sub.	596	39	631	3860		3			3
TANDEM COMPUTERS	2167.1	J. G. Treybig, pres. & CEO	933	17	0	2413	152	2	–19.1	539.0	5
	18.0	R. Pieper, sr. v-p‡	469	283	129	NA		NA			NA
3COM	1013.7	E. A. Benhamou, pres. & CEO	477	20	1708	3486	917	1	–3.0	–757.6	5
	–13.8	R. J. Finocchio, Jr., exec. v-p	337	6	2392	3977		1			5
XEROX	16831.0	P. A. Allaire, CEO	3392	158	3433	11306	158	4	0.5	141.1	4
	17.3	B. D. Romeril, exec. v-p	1958	287	360	NA		NA			NA
23 OIL SERVICE & SUPPLY (RESOURCES)											
BAKER HUGHES	2487.1	J. D. Woods, chmn., pres. & CEO	1418	58	294	5745	102	3	3.6	–29.8	4
	7.9	M. L. Lukens, v-p	739	67	0	2332		3			4
HALLIBURTON	5740.5	T. H. Cruikshank, chmn. & CEO	1200	50	0	2800	127	2	–1.8	682.9	2
	9.6	W. B. Pieper, vice-chmn. & COO	843	70	463	2836		2			3
SCHLUMBERGER	6696.8	D. E. Baird, chmn. & CEO	1600	0	276	5926	87	3	13.5	–44.7	3
	11.7	V. E. Grijalva, exec. v-p	830	34	0	2476		3			3
24 PAPER & FOREST PRODUCTS (RESOURCES)											
GEORGIA-PACIFIC	12782.0	A. D. Correll, chmn. & CEO	3686*	82	466	9789	142	4	3.4	NA	2
	13.2	D. K. Mortensen, exec. v-p	3125*	101	0	6938		4			2
		*Includes $2.0 mil & $2.3 mil (respectively) for taxes on vested restricted stock.									
INTL. PAPER	14966.0	J. A. Georges, chmn. & CEO	2069	47	1212	9487	114	4	4.5	–4.6	4
	6.6	J. T. Dillon, exec. v-p	800	28	430	4000		3			3
JAMES RIVER CORP. OF VIRGINIA	5417.3	R. C. Williams, chmn., pres & CEO	1220	48	0	3056	110	2	–5.1	–271.2	5
	–4.1	R. L. Singer, CEO-sub.‡	698	16	0	1896		2			4
KIMBERLY-CLARK	7364.2	W. R. Sanders, chmn. & CEO	1143	8	476	4541	109	3	19.1	2.2	1
	20.6	J. D. Bernd, exec. v-p	555	8	1129	3324		3			1
LOUISIANA-PACIFIC	3039.5	H. A. Merlo, chmn., pres. & CEO	911	22	4256	17947	193	4	16.0	303.9	3
	18.8	J. Eisses, exec. v-p	390	4	1064	7276		3			2
MEAD	4557.5	S. C. Mason, chmn., pres. & CEO	1411	40	228	3501	150	2	4.8	–19.7	3
	4.1	S. S. Benedict, pres. & COO*†	951	18	107	2454		1			3
		*Retired 12/1/94.									
SCOTT PAPER	3581.1	A. J. Dunlap, chmn. & CEO	3576	NA	3955*	NA	205	NA	1.6	NA	NA
	15.1	P. N. White, sr. v-p	599	140	2316	3887		2			1
		*Includes $774,200 paid pursuant to employment agreement.									

FOOTNOTES ON PAGE 9

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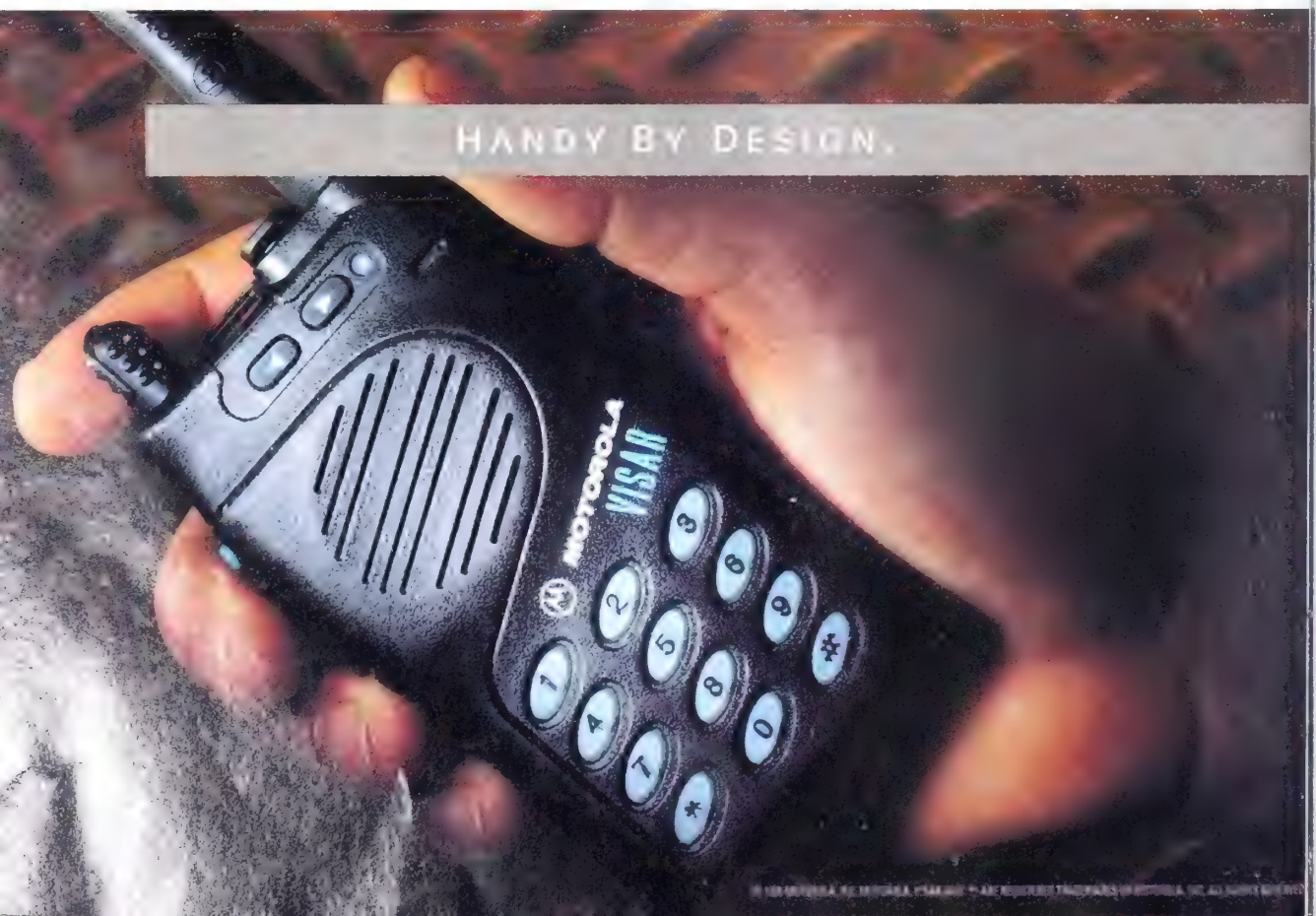
EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	1993 ES $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP. $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
UNI[illegible]	3395.8	W. C. McClelland, chmn. & CEO	965	85	172	2162	104	1	3.8	–0.9	2
	6.4	R. E. Cartledge, chmn. & CEO†	1036	40	127	3210		3			3
WESTVACO	2771.9	J. A. Luke, Jr., pres. & CEO	700	0	0	1892	108	1	6.0	–10.6	2
	7.2	D. L. Luke III, chmn.	750	–2	965	5828		4			4
WEYERHAEUSER	10398.0	J. W. Creighton, Jr., pres. & CEO	1314	18	102	3785	149	2	12.4	NA	1
	13.7	C. W. Bingham, exec. v-p	636	7	1358	3671		3			1
WILLAMETTE INDUSTRIES	3007.9	W. Swindells, chmn. & CEO	615	5	235	3040	169	1	9.5	177.8	1
	12.8	S. R. Rogel, pres. & COO	508	9	89	1655		1			1
25 PERSONAL C[illegible] PRODUCTS (CONSUMER PRODUCTS)											
AVON PRODUCTS	4266.5	J. E. Preston, chmn. & CEO	1050	14	0	3921	141	1	95.0	95.1	1
	149.3	E. J. Robinson, pres. & COO	1038	50	0	2887		2			1
CLOROX	1907.2	G. C. Sullivan, chmn. & CEO	974*	20	1198	3915	151	1	18.3	218.8	1
	21.4	N. P. DeFeo, group v-p	539*	NA	638**	NA		NA			NA
		*Bonus excludes $61,353 & $35,000 (respectively) stock premium paid in restricted stock. **Excludes $1.2 mil for relocation expenses.									
COLGATE-PALMO[illegible]	7587.9	R. Mark, chmn. & CEO	2359	9	13412	43015	138	5	25.7	451.0	4
	31.1	W. S. Shanahan, pres. & COO	1297	8	6397	16717		5			4
GI[illegible]	6070.2	A. M. Zeien, chmn. & CEO	2000	26	2645	12757	138	3	33.2	–2.1	3
	35.3	R. J. Murray, exec. v-p	827	10	273	5178		3			2
PROCTER & GAMBLE	31572.0	E. L. Artzt, chmn. & CEO	2290*	8	565	14932	140	3	15.4	9.2	4
	24.1	J. E. Pepper, pres.	1614*	9	1093	9362		4			4
		*1994 bonus is estimated.									
26 PUBLISHING, RADIO & TV BROADCAST (SERVICE)											
CAPITAL CITIES/ABC	6379.2	T. S. Murphy, chmn. & CEO‡	1361	132	7481	12307	197	4	13.4	63.6	4
	16.8	D. B. Burke, pres., CEO & COO*†	593	–49	2194	7136		3			4
		*Served as CEO until 2/1/94.									
CBS	3711.9	L. A. Tisch, chmn., pres. & CEO	1000	-48	987*	5485	197	3	56.7	NA	1
	109.1	P. F. Tortorici, pres.-sub.	2167	48	0	5227		5			1
		*Includes $986,630 salary/bonus deferred until retirement.									
DOW JONES	2091.0	P. R. Kann, chmn. & CEO	1050	8	1104	5792	129	3	10.1	143.2	3
	12.2	K. L. Burenga, pres. & COO	765	10	779	4053		3			3

FOOTNOTES ON PAGE 94



XECUTIVE COMPENSATION SCOREBOARD

COMPANY	1994 SALES: $ MILLIONS / ROE: %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP: SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
UN & BRADSTREET	4895.7	R. E. Weissman, pres. & CEO	1490	18	1875	7272	108	4	37.3	102.9	2
	47.7	C. W. Moritz, chmn.†	1496	–20	2873	10303		5			3
ANNETT	3824.5	J. J. Curley, chmn., pres. & CEO	1565	20	0	6490	126	4	22.8	30.3	3
	25.5	D. H. McCorkindale, vice-chmn.	1345	21	0	4971		4			3
NIGHT-RIDDER	2649.0	J. K. Batten, chmn. & CEO	981	24	785	4498	104	3	12.7	21.4	3
	14.0	P. A. Ridder, pres.	833	33	226	2391		2			2
McGRAW-HILL	2760.9	J. L. Dionne, chmn. & CEO	1603	8	1046	5811	128	3	13.5	50.2	3
	22.2	H. W. McGraw III, pres. & COO	966	–1	489	3171		3			2
EW YORK TIMES	2357.6	A. O. Sulzberger, chmn. & CEO	1365	52	336	4337	101	3	4 4	216.2	3
	13.8	L. R. Primis, pres.	1101	62	267	2874		3			3
EADER'S DIGEST	2933.4	G. V. Grune, chmn. & CEO	2170	27	873	9686	109	4	28.6	–4.5	3
	27.2	J. P. Schadt, pres. & COO*	1059	24	491	5319		4			3
		*Became CEO 8/1/94.									
CRIPPS (E. W.)	1220.0	L. A. Leser, chmn. & CEO	1170	33	0	3230	131	2	13.6	19.3	2
	11.4	W. R. Burleigh, pres. & COO	635	27	181	1941		2			2
IME WARNER	7396.0	G. M. Levin, chmn. & CEO	5180	1	0	16066	165	5	–12.0	NA	5
	–8.6	B. W. Wasserman, exec. v-p & CFO	2011	9	0	5605		3			5
IMES MIRROR	3357.4	R. F. Erburu, chmn., pres. & CEO	1923	64	0	3973	112	3	6.1	48.3	4
	6.5	R. T. Schlosberg III, exec. v-p	922	68	0	1993		2			3
RIBUNE	2154.9	C. T. Brumback, chmn. & CEO	1284	8	2786	7658	141	4	15.9	16.6	4
	17.7	J. W. Madigan, pres. & COO	851	11	2080	6277		4			4
VASHINGTON POST	1614.0	D. E. Graham, chmn. & CEO	400	0	0	1584	131	1	14.1	18.8	2
	15.3	G. W. Ryan, v-p	1368*	154	1560	4323		3			4
		*Bonus includes $675,000 special deferred compensation credit.									
27 RAILROADS (TRANSPORTATION)											
URLINGTON	4995.0	G. Grinstein, chmn. & CEO	1712	25	784	6843	128	3	20.0	NA	1
ORTHERN	21.3	J. T. Chain, Jr., exec. v-p	572	3	275	2495		2			1
ONRAIL	3733.0	J. A. Hagen, chmn. & CEO	733*	10	638	11201	128	4	9.4	NA	3
	10.9	D. M. LeVan, pres. & COO‡	343*	30	266	4686		3			2
		*Excludes $420,000 & $177,375 (respectively) bonus received in restricted stock.									

FOOTNOTES ON PAGE 94

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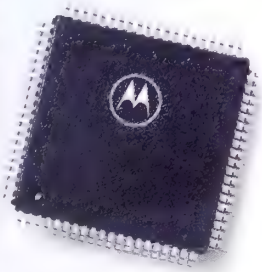

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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP. $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP, $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
CSX	9608.0	J. W. Snow, chmn., pres. & CEO	1954	18	1415	12955	129	4	9.8	NA	4
	17.5	A. R. Carpenter, pres. & CEO-CSXT	897	6	580	4819		3			3
NORFOLK SOUTHERN	4581.3	D. R. Goode, chmn., pres. & CEO	1237	2	205*	4054	112	2	13.1	NM	2
	14.1	J. R. Turbyfill, vice-chmn.	953	–6	179*	4472		4			3
		*Long-term incentives have not been determined.									
SANTA FE PACIFIC	2680.9	R. D. Krebs, chmn., pres. & CEO	714	20	6354	12434	202	3	16.5	70.6	4
	15.9	[illegible] E. Springer, sr. v-p & CFO	514	62	0	2123		2			2
UNION PACIFIC	7798	D. Lewis, chmn., pres. & CEO	2543	–11	0	11096	97	5	16.3	NM	2
	[illegible]	R. K. Davidson, chmn. & CEO-UP Railroad	1420	2	1895	11830		5			4
28 RETAILING (FOOD) (SERVICE)											
SAFEWAY	[illegible]6.6	S. A. Burd, pres. & CEO‡	1263	15	0	2464	180	1	39.4	23.5	1
	45.5	K. W. Oder, exec. v-p	814	–2	0	NA		NA			NA
WINN-DIXIE STORES	11364.9	A. D. Davis, chmn. & CEO	718	–4	0	2160	148	2	22.2	0.3	2
	19.9	J. Kufeldt, pres.	718	–4	313	4129		3			3
29 RETAILING (NONFOOD) (SERVICE)											
AUTOZONE	1574.9	J. R. Hyde III, chmn. & CEO	1163	5	0	34427	145	5	22.1	3.5	5
	21.8	P. R. Formanek, pres. & COO	904	7	2500*	5033		3			3
		*Includes $2.5 mil for noncompete agreement; excludes $1.3 mil retirement benefits.									
CARDINAL HEALTH	6905.7	R. D. Walter, chmn. & CEO	797	11	337	4655	191	2	NA	–22.7	NA
	8.9	J. C. Kane, pres. & COO‡	616	4544	252	NA		NA			NA
MELVILLE	11285.6	S. P. Goldstein, chmn. & CEO	1541	15	516	5516	80	4	11.1	–23.0	4
	12.3	H. Rosenthal, pres. & COO	1043	NA	154	NA		NA			NA
NORDSTROM	3987.1	R. A. Johnson, co-pres.*	631	110	149	1789	120	2	13.4	4.4	2
	15.1	J. J. Whitacre, co-pres.*	631	110	0	1268		1			1
		*Both executives serve as co-presidents.									
PRICE/COSTCO	16825.2	J. D. Sinegal, pres. & CEO	300	0	0	7299	NA	NA	13.0	NA	NA
	11.3	J. H. Brotman, vice-chmn.	300	0	0	9849		NA			NA
SEARS, ROEBUCK	54559.0	E. A. Brennan, chmn., pres. & CEO	1658	–46	0	7755	175	3	2.8	43.0	5
	13.1	A. C. Martinez, chmn. & CEO-sub.	2080	0	0	9828		4			5

FOOTNOTES ON PAGE 94

XECUTIVE COMPENSATION SCOREBOARD

COMPANY	1994 SALES, $ MILLIONS / ROE: %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP. $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
VALGREEN	9522.6	C. R. Walgreen III, chmn. & CEO	1226	7	270	4208	120	3	18.0	0.9	3
	18.2	L. D. Jorndt, pres. & COO	856	13	195	2777		3			2
30 SERVICE INDUSTRIES (SERVICE)											
ROWNING-FERRIS	4679.0	W. D. Ruckelshaus, chmn. & CEO	1266*	12	771	3970	140	3	12.6	119.2	2
	12.8	B. E. Ranck, pres. & COO	729*	18	591	2307		2			2
		*Excludes $45,920 & $27,084 bonuses (respectively) paid in restricted stock.									
ONNELLEY (R. R.) & SONS	4888.8	J. R. Walter, chmn. & CEO	1345	0	270	4932	125	3	12.0	14.6	4
	13.6	R. J. Cowan, exec. v-p	590	0	94	2041		2			2
EDERAL EXPRESS	8932.1	F. W. Smith, chmn., pres. & CEO	1204	95	0	2371	155	2	9.9	NA	1
	12.4	W. J. Razzouk, exec. v-p	949	183	510	2272		2			1
LUOR	8487.2	L. G. McCraw, chmn. & CEO	1516	12	830	10568	102	5	15.7	8.0	4
	15.8	H. K. Coble, vice-chmn.	740	6	733	6549		5			4
ENUINE PARTS	4858.4	L. L. Prince, chmn. & CEO	961	11	439	3165	121	2	18.2	2.6	2
	18.9	T. C. Gallagher, pres. & COO	675	11	269	2193		2			2
RAINGER (W. W.)	3023.1	D. W. Grainger, chmn.	964	–3	0	2953	110	2	14.3	–16.6	3
	12.4	J. D. Fluno, vice-chmn.	1149	24	0	4934		4			4
UMANA	3654.0	D. A. Jones, chmn. & CEO	1941	11	0	6102	NA	NA	NA	NA	NA
	16.6	W. T. Smith, pres. & COO	1460	39	0	3122		NA			NA
IANOR CARE	1239.5	S. W. Bainum, Jr., chmn., pres. & CEO	733	–5	0	2214	160	2	15.7	–30.9	2
	15.1	R. C. Hazard, Jr., chmn. & CEO-sub.	519	8	0	1412		1			2
IANPOWER	4296.4	M. S. Fromstein, chmn., pres. & CEO	2611	107	0	6754	191	3	–10.4	NA	1
	41.2	J. F. Chait, exec. v-p, CFO & secy.	790	74	0	1689		1			1
ACIFICARE EALTH SYSTEMS	3096.5	A. R. Hoops, pres. & CEO	848	32	334	4015	334	1	20.8	–18.8	3
	20.9	R. Lipeles, exec. v-p	574	14	1096	3656		2			3
REMIER NDUSTRIAL	778.2	M. L. Mandel, chmn. & CEO	540	4	0	1560	127	1	22.1	–4.7	1
	21.8	P. S. Sims, vice-chmn. & CFO	297	5	103	1155		1			1
ENET HEALTHCARE	2719.4	J. C. Barbakow, chmn. & CEO	1853	NA	0	NA	89	NA	13.4	86.2	NA
	14.8	M. H. Focht, pres. & COO	1124	59	1456	4345		4			3

FOOTNOTES ON PAGE 94

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UNITED HEALTHCARE	3768.9	W. W. McGuire, CEO	2687**	58	0	17043	243	4	16.0	–56.2	5
	10.3	G. B. Borkow, exec. v-p & CFO*	1351**	58	9141	15198		4			5
		*Left company 12/31/94.**Includes $750,000 & $500,000 (respectively) one-time bonus for sale of subsidiary.									
WMX TECHNOLOGIES	10097.3	D. L. Buntrock, chmn. & CEO	2597	76	0	7278	66	5	16.5	17.2	4
	17.2	P. B. Rooney, pres. & COO	2029	103	0	26878		5			4
31 STEEL (INDUSTRIAL: LOW TECH)											
NUCOR	2975.6	F. K. Iverson, chmn. & CEO	1155	78	624	3854	250	1	14.7	122.0	1
	[illegible]	S. Siegel, vice-chmn., CFO, treas. &	868	78	893	2849		1			2
USX-U S STEEL GROUP		C. A. Corry, chmn. & CEO-USX Corp.*	2186	28	80	5533	141	2	NA	NA	NA
	19.3	T. J. Usher, pres. & COO-USX Corp.	1034	18	75	3094		3			NA
		*Same compensation also listed under USX-Marathon Grp									
32 TELECOMMUNICATIONS (TELECOMMUNICATIONS)											
AIRTOUCH COMMUNICATIONS	1235.4	S. L. Ginn, chmn. & CEO	1111	–32	2119	7613	NA	NA	0.9	NA	NA
	2.8	C. L. Cox, v-chmn,pres.-sub	749	–6	1002	4181		NA			NA
ALLTEL	2961.7	J. T. Ford, chmn. & CEO	1235	23	377	4571	167	2	17.0	–4.1	2
	16.7	M. E. Bobbitt, pres. & COO†	867	22	146	2617		2			2
AMERITECH	12569.5	R. C. Notebaert, pres. & CEO‡	1544	76	244	4310	145	2	19.3	34.3	2
	19.3	R. H. Brown, vice-chmn.‡	1028	14	264	4547		3			3
AT&T	75094.0	R. E. Allen, chmn. & CEO	3499	39	1886	13403	139	5	25.0	717.1	3
	26.3	V. A. Pelson, exec. v-p	1725	49	503	6221		4			2
BELL ATLANTIC	13791.4	R. W. Smith, chmn. & CEO	1610	–5	401	7022	120	3	19.6	35.6	3
	23.1	R. M. Valentini, exec. v-p†	906	–2	1888*	4859		3			3
		*Includes $1.8 mil to be paid in connection with retirement agreement.									
BELLSOUTH	16844.5	J. L. Clendenin, chmn., pres. & CEO	1482	–1	324	5692	121	2	11.6	30.7	3
	15.0	W. O. McCoy, vice-chmn†	937	16	1892*	5095		4			4
		*Includes $1.5 mil paid under retirement agreement (excludes potential payment of $1.9 mil).									
DSC COMMUNICATIONS	1003.1	J. L. Donald, chmn., pres. & CEO	8207	59	15619	34181	1852	1	12.7	NA	1
	19.1	G. F. Montry, sr. v-p & CFO	1746	64	5887	11873		1			1
GTE	19944.0	C. R. Lee, chmn. & CEO	2004	15	698	7156	104	3	17.1	69.6	3
	23.3	K. B. Foster, v-chmn. & pres.-Tele Ops	1526	34	398	6452		5			4
MCI COMMUNICATIONS	13338.0	B. C. Roberts, Jr., chmn. & CEO	1819	–16	896	11309	122	4	13.6	–50.0	5
	8.8	G. H. Taylor, pres. & COO	970	53	713	7000		4			5
NYNEX	13306.6	W. C. Ferguson, chmn. & CEO†	1895	35	511	6057	108	3	6.5	40.5	4
	9.3	I. G. Seidenberg, vice-chmn. & pres*	792	7	612	3185		2			4
		*Became CEO 1/1/95.									
PACIFIC TELESIS GROUP	9235.0	P. J. Quigley, chmn., pres. & CEO	1011	27	870	4008	129	2	12.7	65.3	2
	21.7	D. W. Dorman, pres. & CEO-Pacific Bell	823*	NA	23	NA		NA			NA
		*Includes $300,000 loan forgiveness									
SBC COMMUNICATIONS	11618.5	E. E. Whitacre, Jr., chmn. & CEO	2213	3	1948	11656	139	4	17.5	51.2	4
	19.7	J. R. Adams, group pres.	898	–7	843	5364		3			3
SPRINT	12661.8	W. T. Esrey, chmn. & CEO	2026	20	1601	9651	129	4	15.6	34.4	4
	19.5	R. T. LeMay, pres.	1214	37	252	4725		3			3
TELLABS	494.2	M. J. Birck, pres. & CEO	495	26	555	1831	773	1	16.5	440.8	1
	24.7	P. A. Guglielmi, exec. v-p & CFO	344	25	1333	2956		1			1
		May contain data from preliminary source.									
US WEST	10953.0	R. D. McCormick, chmn., pres. & CEO	1267	–1	0	5518	111	3	13.9	234.4	2
	19.3	C. M. Lillis, exec. v-p	751	10	0	3203		2			2
33 TEXTILES, APPAREL (CONSUMER PRODUCTS)											
NIKE	4100.1	P. H. Knight, chmn. & CEO	968	–12	0	3032	106	2	18.9	–29.7	2
	17.4	R. K. Donahue, pres. & COO	792	–15	0	2566		2			3
REEBOK INTERNATIONAL	3280.4	P. B. Fireman, chmn., pres. & CEO	2000	21	0	5254	122	2	22.2	–7.2	3
	26.4	P. R. Duncan, exec. v-p & CFO	1108	29	2517	5314		3			3
SHAW INDUSTRIES	2788.5	R. E. Shaw, pres. & CEO	2010	19	0	5451	176	2	15.3	11.8	3
	18.0	W. C. Lusk, Jr., sr. v-p & treas.	980	7	1220	6272		3			4
[illegible]	1454.4	W. T. Kretzer, pres. & CEO	950	–10	4	9767	120	3	18.1	–46.8	4
	14.5	G. A. Mebane IV, chmn.	1084	–14	4	8174		4			5
	4971.7	L. R. Pugh, chmn. & CEO	1878	48	519	9286	132	3	17.1	–6.8	3
	15.6	M. J. McDonald, pres. & COO‡	1304	79	253	3003		2			3
34 TIRE & RUBBER (INDUSTRIAL: LOW TECH)											
COOPER TIRE & RUBBER	1403.2	I. W. Gorr, chmn. & CEO*	701	–14	527	3198	95	2	20.3	7.4	1
	19.4	P. W. Rooney, chmn., pres. & CEO	643	8	0	1856		2			1
		*Resigned 10/17/94.									
GOODYEAR TIRE & RUBBER	12288.2	S. C. Gault, chmn. & CEO	2190	10	1014	16335	132	4	20.2	641.5	3
	20.2	H. M. Wells, vice-chmn., pres. & COO	1483	20	633	6319		4			3

FOOTNOTES ON PAGE 9

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- Spouse stays free
- L Late checkout

CALIFORNIA
Carlsbad
Best Western Beach Terrace Inn
Best Western Beach View Lodge
Mountain View
Best Western Inn (near Hwy. 237)
San Diego
Best Western Hacienda Hotel
San Francisco Airport Area (Millbrae)
Best Western El Rancho Inn
San Francisco Airport Area (San Mateo)
Best Western San Mateo Inn
San Jose
Best Western Gateway Inn
Santa Barbara
Best Western Pepper Tree Inn
Santa Monica
Best Western Ocean View
Santa Rosa
Best Western Garden Inn

IOWA
Des Moines
Best Western Des Moines W. Executive Center
Iowa City Area (Coralville)
Best Western Westfield Inn

MASSACHUSETTS
Boston
Best Western Terrace Motor Lodge

MICHIGAN
Detroit (Sterling Heights)
Best Western Sterling Inn Banquet & Conference Center

MINNESOTA
Saint Cloud
Best Western Kelly Inn

MONTANA
Kalispell
Best Western Outlaw Inn

NEBRASKA
Lincoln
Best Western AAA Villager Motor Inn
Omaha
Best Western Central Executive Center
Omaha Area (Council Bluffs IA)
Best Western Metro

NEVADA
Las Vegas
Best Western McCarran Inn

NEW MEXICO
Albuquerque
Best Western Airport Inn

NEW YORK
New York City (Manhattan)
Best Western President Hotel

NORTH DAKOTA
Bismarck
Best Western Doublewood Inn
Best Western Fleck House
Fargo
Best Western Doublewood Inn & Conference Center
Grand Forks
Best Western Fabulous Westward Ho Motel
Best Western Town House
Mandan (Bismarck Area)
Best Western Seven Seas Inn & Conference Center
Minot
Best Western International Inn
Best Western Safari Inn

OREGON
Portland South (Tigard)
Best Western Chateau 290

TEXAS
El Paso
Best Western Airport Inn

WASHINGTON
Bellevue
Best Western Bellevue Inn
Mount Vernon
Best Western Cottontree Inn
Seattle Area (Federal Way)
Best Western Federal Way Executel
Tacoma
Best Western Executive Inn
Tacoma Area (Puyallup)
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BRITISH COLUMBIA
Vancouver Airport Area (Richmond)
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EXECUTIVE COMPENSATION SCOREBOARD

COMPANY	SALES, $ MILLIONS / ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
TOBACCO (CONSUMER PRODUCTS)											
AMERICAN BRANDS	7489.7	W. J. Alley, chmn. & CEO†	2113**	8	2333	13035	96	4	18.4	0.5	4
	19.1	T. C. Hays, pres. & COO*	1118**	5	113	5085		3			3
		*Became CEO 1/1/95. **Excludes $378,913 & $169,919 (respectively) tax reimbursement related to funding retirement benefits.									
PHILIP MORRIS	53776.0	G. C. Bible, chmn., pres. & CEO	1904	44	5973	13280	82	4	35.7	17.7	3
	37.0	W. Murray, chmn.†	2150	82	6063	33255		5			5
RJR NABISCO HOLDINGS	15366.0	C. M. Harper, chmn. & CEO	5061*	73	0**	NA	51	NA	4.9	181.3	NA
		J. W. Johnston, chmn. & CEO-sub.	2798*	191	255	6008		5			4
		*Excludes $5.5 mil & $3.5 mil (respectively) for reimbursed taxes. **Excludes $2.1 mil insurance premium.									
UST	1223.0	V. A. Gierer, Jr., chmn., pres. & CEO	2410	15	4	11827	94	4	82.4	94.6	1
	107.1	J. R. Taddeo, exec. v-p	1700	16	0	6015		4			1
36 UTILITIES (UTILITIES)											
AMERICAN ELECTRIC POWER	5504.7	E. L. Draper, Jr., chmn., pres. & CEO	829*	21	148	2080	117	2	10.5	0.3	2
	11.8	P. J. DeMaria, treas. & exec. v-p	408*	14	69	1124		2			2
		*1994 bonus estimated									
BALTIMORE GAS & ELECTRIC	2783.0	C. H. Poindexter, chmn. & CEO	662	12	0	1955	116	2	9.8	17.7	2
	10.4	E. A. Crooke, pres. & COO	510	15	0	1516		3			3
CAROLINA POWER & LIGHT	2876.6	S. H. Smith, Jr., chmn. & CEO	817	12	262	2862	117	3	13.0	–20.0	3
	11.7	W. Cavanaugh III, pres. & COO‡	578	5	183	1986		3			3
CENTRAL & SOUTH WEST	3623.0	E. R. Brooks, chmn., pres. & CEO	620	–1	0	2211	102	2	11.6	–2.5	2
	12.9	T. V. Shockley III, exec. v-p	405	–4	0	1341		3			2
CINERGY	2924.2	J. H. Randolph, chmn. & CEO	731	NA	50	NA	107	NA	5.4	–31.3	NA
	7.9	J. E. Rogers, vice-chmn., pres. & COO	763	NA	324	NA		NA			NA
CONSOLIDATED EDISON OF N.Y.	6373.1	E. R. McGrath, chmn., pres. & CEO	934	14	61	2659	110	3	12.3	14.2	2
	13.1	R. J. McCann, exec. v-p & CFO	481	2	55	1547		3			2
DETROIT EDISON	3519.3	J. E. Lobbia, chmn. & CEO	573	–8	0	1726	93	2	14.9	–37.6	2
	11.8	A. F. Earley, Jr., pres. & COO*	415	NA	0	NA		NA			NA
		*Joined company 3/01/94									
DOMINION RESOURCES	4491.1	T. E. Capps, chmn. & CEO	845	17	0	2806	114	3	10.8	–12.1	3
	10.4	J. T. Rhodes, pres.	578	4	70	1886		3			4
DUKE POWER	4488.9	W. H. Grigg, chmn. & CEO	736	39	215	2007	125	2	12.4	–0.1	2
	13.0	W. S. Lee, chmn., pres. & CEO*†	782	–26	328	3479		4			4
		*Retired 6/23/94.									
ENRON	8904.5	K. L. Lay, chmn. & CEO	2487	5	7653	27531	187	5	14.0	26.7	5
	16.1	R. D. Kinder, pres. & COO	1624	3	1772	12058		5			5
FLORIDA PROGRESS	2771.5	J. B. Critchfield, chmn. & CEO	936	–5	346	3174	114	3	NA	NA	NA
	10.7	R. Korpan, pres. & COO	665	1	206	2109		3			NA
FPL GROUP	5422.7	J. L. Broadhead, chmn., pres. & CEO	1452	7	897	6380	113	5	11.7	10.0	5
	12.3	S. E. Frank, pres. & COO	765	0	582	3378		4			4
GENERAL PUBLIC UTILITIES	3649.5	J. R. Leva, chmn., pres. & CEO	574	–20	118	2218	115	2	9.4	–33.8	4
	6.2	I. H. Jolles, sr. v-p	328	–15	47	1220		2			3
		May contain data from preliminary source.									
HOUSTON INDUSTRIES	4001.9	D. D. Jordan, chmn. & CEO	1709	41	551	5587	101	4	11.6	–2.3	4
	11.8	D. D. Sykora, pres. & COO	1189	49	372	3767		4			4
NEW ENGLAND ELECTRIC SYSTEM	2243.0	J. W. Rowe, pres. & CEO	795	12	161	2529	121	2	12.5	1.1	3
	12.6	A. D. Houston, exec. v-p	383	4	62	1202		2			2
NIPSCO INDUSTRIES	1676.4	G. L. Neale, chmn., pres. & CEO	692	14	0	1667	131	1	13.8	12.8	1
	14.5	S. P. Adik, exec. v-p, CFO & treas.	288	5	0	797		1			1
OHIO EDISON	2368.2	W. R. Holland, pres. & CEO	555	19	0	1377	112	1	7.6	21.0	2
	12.2	H. P. Burg, sr. v-p & CFO	266	5	0	769		1			1
PACIFIC ENTERPRISES	2664.0	W. B. Wood, Jr., chmn. & CEO	1070	–7	0	2987	90	4	15.4	NA	1
	13.2	R. D. Farman, pres. & COO	726	7	0	2041		4			1
PACIFIC GAS & ELECTRIC	10447.3	S. T. Skinner, pres. & CEO	710	22	60	2806	92	3	12.0	–9.8	3
	11.0	R. A. Clarke, chmn.	891	8	54	3970		5			5
PACIFICORP	3506.5	F. W. Buckman, pres. & CEO*	807	NA	879	NA	87	NA	9.4	–8.2	NA
	12.6	A. M. Gleason, vice-chmn., pres. & CEO	1038	0	0	3330		5			5
		*Became CEO 2/1/94.									
PANHANDLE EASTERN	4585.1	D. R. Hendrix, chmn. & CEO	19*	–18	0	6591	144	4	11.2	73.3	4
	11.1	P. M. Anderson, pres.	532	7	13	1579		2			2
		*Reflects other annual compensation; salary for 11/93-11/96 paid in restricted stock on 2/93.									
[illegible] ENERGY	4040.6	J. F. Paquette, Jr., chmn. & CEO	791	–5	0	3823	111	4	10.7	–24.8	4
	9.1	C. A. McNeill, Jr., pres. & COO	515	–4	0	1664		3			4
PENNSYLVANIA POWER & LIGHT	2725.1	W. F. Hecht, chmn., pres. & CEO	470*	12	0	1378	91	1	11.6	–33.4	2
	8.8	F. A. Long, exec. v-p & COO	356	37	43	957		2			3
		*Excludes $94,000 incentive that executive decided to forgo.									
[illegible] ELECTRIC POWER	1823.1	E. F. Mitchell, chmn. & CEO	633	–23	96	2130	93	3	10.8	–6.5	3
	10.8	H. L. Davis, vice-chmn. & CFO	464	–24	73	1581		3			3
PUBLIC S[illegible] INTERP[illegible]	5915.8	E. J. Ferland, chmn., pres. & CEO	652*	–27	147	2633	112	3	11.6	7.0	3
	12.8	L. R. Codey, pres. & COO-sub.	398*	–18	55	1408		2			2
		*1994 bonus has not been determined.									

FOOTNOTES ON PAGE 9

XECUTIVE COMPENSATION SCOREBOARD

COMPANY	1994 SALES $ MILLIONS	1994 ROE %	EXECUTIVE	1994 COMPENSATION: TOTAL ANNUAL COMP. SALARY & BONUS $000	% CHANGE FROM 1993	LONG-TERM COMP $000	1992-94 PAY-PERFORMANCE ANALYSIS: PAY VS. SHAREHOLDER RETURN: TOTAL COMP $000	$ VALUE OF $100 INVESTED	RATING	PAY VS. CORPORATE PROFIT: ROE %	CHANGE IN ROE %	RATING
AN DIEGO AS & ELECTRIC	1982.0	9.2	T. A. Page, chmn., pres. & CEO	793	–7	76	3340	105	4	12.3	–36.7	4
			S. L. Baum, exec. v-p	336	–10	24	1322		3			3
CANA	1322.1	10.7	L. M. Gressette, Jr., chmn., pres. & CEO	419	–34	173	2001	114	2	11.1	–18.8	3
			B. D. Kenyon, pres. & COO	413	3	82	1362		2			3
CECORP	8344.6	11.1	J. E. Bryson, chmn. & CEO	665	–32	0	2553	79	4	11.4	–10.4	3
			E. R. Muller, pres. ‡	512	118	0	NA		NA			NA
ONAT	1773.9	10.2	R. L. Kuehn, Jr., chmn., pres. & CEO	1110	–20	460	5907	189	3	12.7	36.0	4
			D. G. Russell, exec. v-p	680	–46	279	4170		4			4
OUTHERN	8297.2	12.2	E. L. Addison, chmn. & CEO†	955	7	426	3753	136	NA	–3.9	96.2	NA
			A. W. Dahlberg, pres.* *Became chairman & CEO 3/95.	727	23	306	3258		NA			NA
ECO NERGY	1350.9	14.1	T. L. Guzzle, chmn. & CEO	853	34	0	3032	111	3	14.8	–13.3	3
			G. F. Anderson, pres. & COO	595	51	0	1717		3			3
EXAS UTILITIES	5663.5	8.4	J. S. Farrington, chmn. & CEO	804	–7	289	3327	99	4	7.8	NA	1
			E. Nye, pres.	619	–5	229	2537		4			2
NION ELECTRIC	2056.1	13.6	C. W. Mueller, pres. & CEO	520	78	0	1039	110	1	13.2	–7.2	1
			C. J. Schukai, sr. v-p	289	16	0	783		1			1
VESTERN RESOURCES	1617.9	11.8	J. E. Hayes Jr., chmn., pres. & CEO	562	10	48	1640	121	1	10.8	15.1	1
			W. E. Brown, pres. & CEO-KPL	287	6	22	820		1			1
VHEELABRATOR ECHNOLOGIES	1324.6	12.9	P. B. Rooney, chmn. & CEO	0*	–100	0	15598	87	5	14.2	–8.9	5
			J. M. Kehoe, Jr., pres. & COO *Compensated by WMX Technologies.	546	1	0	1611		4			3
VILLIAMS	1751.1	11.1	K. E. Bailey, chmn., pres. & CEO	550*	–25	1270	4261	143	3	11.2	20.8	4
			B. E. O'Neill, pres.-sub. *Excludes bonus paid in restricted stock.	414	14	82	1367		2			2
VISCONSIN ENERGY	1742.2	10.4	R. A. Abdoo, chmn., pres. & CEO	672	18	0	1736	114	2	10.9	–20.6	3
			J. W. Boston, v-chmn.; pres. & COO-sub. May contain data from preliminary source.	418	32	0	1021		1			3

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

bbott Laboratories 11
lvanced Micro Devices 12
tna Life & Casualty 21
lac 21
r Products & Chemicals 8
rtouch Communications 32
co Standard 9
lergan 11
liedSignal 9
lstate 21
ltel 32
uminum Co. Of America 18
za 11
nerada Hess 20
nerican Brands 35
nerican Electric Power 36
nerican Express 21
nerican General 21
nerican Home Products 11
nerican International Group 21
meritech 32
ngen 11
noco 20
MP 12
MR 2
adarko Petroleum 20
heuser Busch 6
N 21
ple Computer 22
plied Material 15
cher-Daniels-Midland 13
co Chemical 8
hland Oil 20
&T 32
lantic Richfield 20
tomatic Data Processing 22
tozone 29
ery Dennison 19
on Products 25
ker Hughes 23
ltimore Gas & Electric 36
nc One 5
nk of Boston 5
nk of New York 5
nkAmerica 5
nkers Trust New York 5
rnett Banks 5
usch & Lomb 11
xter International 11
ar Stearns 21
cton Dickinson 11
ll Atlantic 32
llSouth 32
Berkshire Hathaway 21
Black & Decker 15
Block (H&R) 21
Boatmen's Bancshares 5
Boeing 1
Bristol Myers Squibb 11
Browning-Ferris 30
Brunswick 17
Burlington Northern 27
Burlington Resources 20
Campbell Soup 13
Capital Cities/ABC 26
Cardinal Health 29
Carnival 17
Carolina Power & Light 36
Caterpillar 15
CBS 26
Central & South West 36
Chase Manhattan 5
Chemical Banking 5
Chevron 20
Chrysler 4
Chubb 21
Cigna 21
Cincinnati Financial 21
Cinergy 36
Cisco Systems 22
Citicorp 5
Clorox 25
CNA Financial 21
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Coca-Cola Enterprises 6
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Cooper Industries 12
Cooper Tire & Rubber 34
Corestates Financial 5
Corning 19
CPC International 13
Crown Cork & Seal 10
CSX 27
Dana 4
Dean Witter Discover 21
Deere 15
Delta Air Lines 2
Detroit Edison 36
Digital Equipment 22
Disney (Walt) 17
Dominion Resources 36
Donnelley (R. R.) & Sons 30
Dover 15
Dow Chemical 8
Dow Jones 26
Dresser Industries 15
DSC Communications 32
DuPont 8
Duke Power 36
Dun & Bradstreet 26
Duracell International 19
Eastman Chemical 8
Eastman Kodak 17
Eaton 4
Echlin 4
Emerson Electric 12
Engelhard 8
Enron 36
Equifax 21
Equitable 21
Exxon 20
Federal Express 30
Fifth Third Bancorp 5
First Bank System 5
First Chicago 5
First Data 22
First Fidelity Bancorp. 5
First Financial Mgmt. 21
First Interstate Bancorp 5
First Union 5
First USA 21
Florida Progress 36
Fluor 30
FMC 15
Ford Motor 4
FPL Group 36
Franklin Resources 21
Freeport McMoran 18
Gannett 26
Genentech 11
General Dynamics 1
General Electric 9
General Instrument 12
General Mills 13
General Motors 4
General Public Utilities 36
General Re 21
Genuine Parts 30
Georgia-Pacific 24
Gillette 25
Golden West Financial 21
Goodyear Tire & Rubber 34
Grace (W. R.) 8
Grainger (W. W.) 30
Great Lakes Chemical 8
Great Western Financial 21
GTE 32
Halliburton 23
Harcourt General 9
Harley-Davidson 17
Hasbro 17
Heinz (H. J.) 13
Hercules 8
Hershey Foods 13
Hewlett-Packard 22
Hillenbrand Industries 19
Hilton Hotels 14
Honeywell 16
Hormel Foods 13
Household International 21
Houston Industries 36
Humana 30
Huntington Bancshares 5
IBM 22
Illinois Tool Works 19
Ingersoll-Rand 15
Intel 12
Intl. Flavors & Fragrances 8
Intl. Game Technology 19
Intl. Paper 24
ITT 9
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Upjohn 11
US West 32
UST 35
USX-Marathon Group 20
USX-U S Steel Group 31
VF 33
Wachovia 5
Walgreen 29
Warner-Lambert 11
Washington Post 26
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How Apple is making it easier to move a refrigerator like this.

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Erv Barnes (left), Director of Information Technology, and Ed Herrelko (right), Executive Vice President of Group Sales, at Whirlpool Corporation, Benton Harbor, Michigan

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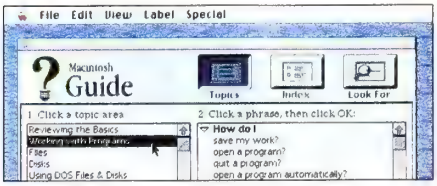

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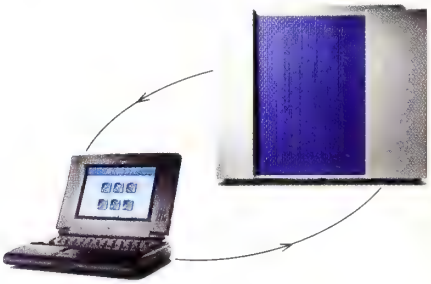

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THE MOGUL

Just how risky is Edgar Bronfman Jr.'s Hollywood gamble?

Much has been made of Edgar Bronfman Jr.'s early and unspectacular career as a theater and film producer. Most telling, perhaps, is that it began at an age when most kids are learning to drive. A pudgy-faced rich kid in Levis and sneakers, Bronfman latched on to a 30-year-old Broadway producer named Bruce Stark while still in high school. Bronfman Sr. was funding Stark's efforts, so entrée was easy.

The surprising part is that Stark was happy to have him. What he remembers most is Bronfman's chutzpah. In meetings with powerful agents and assorted glitterati of the entertainment world, young Bronfman did all the talking. No doubt the teenager's money and family ties got him through the door, but his charm and wit made people take him seriously. "He was an amazing kid," says Stark. "He has a language facility that's really quite amazing. He often made me feel like I was kind of incompetent."

KONG-SIZE UPGRADE
It may take billions to fix up MCA's parks

For the past two weeks, such praise has been hard to come by for the 39-year-old chief executive of $6.4 billion Seagram Co. More common have been the cries of dismay over what is probably the ultimate expression of Bronfman's moxie: His two-step deal to transform Seagram from a liquor company with a 24% stake in DuPont Co. to a broad-based entertainment company focused squarely on the Information Highway. The news drove Seagram stock down 18%, to a low of 26¾, from which it has yet to recover significantly. Wall Street came alive with protest. "I think the Bronfman kid is making a terrible error," said Scott Black of Boston's Delphi Management Inc., which holds 206,000 Seagram shares.

NEXT STOP, A NETWORK? Right or wrong, the complex set of transactions will surely rank among the flashiest and most controversial deals of the 1990s. First of all is the irresistible urge to paint the event in made-for-Hollywood terms. To many, this was the tale of a rich, young scion risking the family fortune to pursue his star-struck fantasies. No one really knows what motivates a person, but it is worth pointing out that Bronfman has been rich all his life and already knows plenty of celebrities. Says film producer David Put nam, whom Edgar Jr. lived with for a period in hi school: "He got his illusions out of his system by t age of 24 or 25. He could have been a producer li Steve Tisch. He had the money. But he didn't think was something serious people did."

The more serious aspect of these deals, of course, is wh will make them endure as symbols. Like the failed $35 billi merger of Bell Atlantic Corp. and Tele-Communications In Bronfman's big bet makes the business world focus anxiously the real value inherent in the mythical I-way. By selling Se gram's DuPont stake back to the company for $8.8 billion so could buy 80% of MCA Inc. for $5.7 billion, Bronfman raised fundamental question: What's more valuable, a steady, old-li industrial business like chemicals or a glitzy, high-promi technology play like entertainment? Wall Street, for now least, has voted with its feet.

But was this budding mogul's bet so misplaced? Experts the entertainment industry say that depends entirely on ho well he plays out his hand. It is easy (and scary) to see wh Bronfman gave up: unencumbered cash flow from DuPo dividends, which should top $300 million this year (page 12

NO ILLUSIONS
Bronfman grew up surrounded by celebs

Determining MCA's true value is far more difficult. A wager on Seagram stock right now is a bet on both the future and Edgar Jr.'s ability to manage it. Says one Wall Street executive close to Seagram: "This will require a good deal of luck and skill, which Edgar may or may not have."

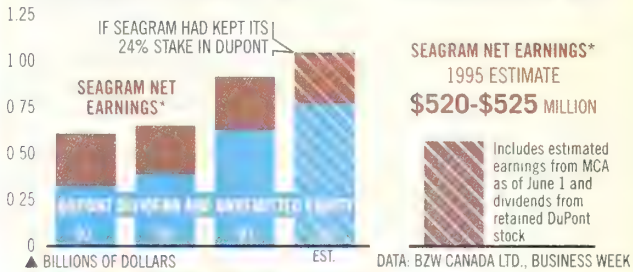
One thing is clear: Even priced at a rich 15 times 1994 cash flow (a peak year), MCA and its Universal Studios unit provide a ripe opportunity. Bronfman has the advantage of little debt, plenty of excess capital to play with, and a board of directors that isn't likely to cross the Bronfman family, given its 36% stake in the parent company. After paying down some debt, Bronfman will have at least $1 billion left over from the DuPont deal. And a 14.9% stake in Time Warner Inc. is worth about $2 billion. MCA's cash flow, meanwhile, can probably finance $3 billion to $4 billion in leverage, if need be.

Bronfman's big disadvantage, however, is that, besides cash, Seagram brings nothing to the entertainment party in terms of management or assets. Viacom Inc. may have paid a similar multiple for Paramount Communications Inc. in 1993, but the owner of MTV, Showtime, and Nickelodeon had loads of Hollywood experience.

Moreover, making MCA a true player against giants such

Edgar Jr.'s Brave New World

SEAGRAM IS TRADING ITS DUPONT SAFETY NET... ...FOR A MORE UNCERTAIN FUTURE WITH MCA



DATA: BZW CANADA LTD., BUSINESS WEEK

*Before nonrecurring and extraordinary items. Does not reflect accounting changes. Fiscal year ends Jan. 31

1994 REVENUES	MCA
UNIVERSAL PICTURES $2.3 BILLION*	Producer of *Jurassic Park, E.T., Jaws, Back to the Future, Psycho.* Library of 4,700 films.
MCA MUSIC ENTERTAINMENT GROUP $1.4 BILLION*	Fine Young Cannibals, Meat Loaf, Reba McEntire. Geffen Records label handles Aerosmith, Nirvana, Counting Crows.
MCA TELEVISION GROUP $600 MILLION*	Owns 50% of USA Network. Produces TV shows *Coach, Murder She Wrote,* and *Northern Exposure.*
THEME PARKS $350 MILLION*	Owns Universal Studios tour in Hollywood and 50% of Florida theme park.
MCA BOOK PUBLISHING $240 MILLION*	Owns Putnam Berkeley Group and Price Stern Sloan. Authors include Tom Clancy, Alice Hoffman, Dean Koontz.
CINEPLEX ODEON $150 MILLION*	Owns 42% of this 2,800-screen, $359 million movie theater operator.
	SEAGRAM
SPIRITS AND WINE $4.9 BILLION	Brands include Chivas Regal, Martell Cognac, and Sterling Vineyards wines.
TROPICANA $1.5 BILLION	Fruit juices, coolers, mixers.

* Estimate

DATA: BUSINESS WEEK, SEAGRAM CO.

PHOTOGRAPHY CHRISTOPHER MORRIS/MAGNUM; CHARTS BY ALAN BAUHEN

as Time Warner and Disney may take all of Bronfman's resources—and more. At going rates, just finding a top-notch executive to run MCA for him could cost hundreds of millions in stock and salary. That's especially true if he hires Hollywood superagent Michael Ovitz, as people close to Bronfman say he would like to do. Filling out a new management team could cost millions more.

Then there are the investments required to take MCA into the future. To guarantee distribution for the studio's TV shows, most experts think MCA will go after one of the networks. Bronfman and Barry Diller are rumored to be mulling a run at Laurence A. Tisch's CBS Inc. But Tisch is asking a stiff $5 billion. MCA, meanwhile, has already committed to spending $3 billion for theme-park upgrades, including a new Jurassic Park ride at its 50%-owned property near Orlando. Says one entertainment executive: "It's the kind of deal where you buy it and then start spending money."

DIPLOMATIC SKILLS. From what little he has said publicly about the deal, Bronfman's view is this: DuPont was a passive investment in a cyclical business. With MCA, Seagram will control its own destiny and reap the rewards. So finding new management is Bronfman's first priority. He badly needs someone who can decipher the kaleidoscopic future of the entertainment business. And more immediately, he needs to find ways to squeeze more cash out of MCA as it exists today.

Chief Executive Lew R. Wasserman, 82, and President Sidney J. Sheinberg, 60, have managed MCA well over the years. But they've complained that MCA's former owner, Japan's Matsushita Electric Industrial Co., wouldn't let them spend enough money. Rivals say privately that the company also suffered because Wasserman and Sheinberg are themselves conservative. Contends one competitor: "MCA needs an injection of leadership and pizzazz to go along with the same fiscal constraint."

Here's what's likely to happen, according to sources close to Sheinberg: Wasserman will be given an emeritus title with a big salary at MCA and a seat on Seagram's board. Bronfman, meantime, will set up Sheinberg with a well-funded but separate production company where he can make movies with his two sons, Jonathan and Billy. Bronfman then would be free to bring in Ovitz and let him decide the fate of the existing studio hierarchy.

Ovitz denies he has any part in this scenario. He says he has turned down similar offers to manage studios in the past and would rather keep running Creative Artists Agency (CAA), his powerful talent shop. Still, most close observers believe his long ties to Bronfman as a friend and confidant make him candidate No. 1. Sources also say that while Ovitz has distanced himself from the process while Bronfman deals with Wasserman and Sheinberg, he has dispatched two trusted CAA officials to help Edgar Jr. sort through personnel issues.

Bronfman has little debt, capital to play with, and a friendly board

If Bronfman has demonstrated he is good at anything over the years, it is making people comfortable with his agenda. In 1988, he spent long hours coaxing the Martell family of France to sell the Bronfmans its lucrative cognac brand. Sources close to the deal say his gentle cajoling during two trips to Osaka persuaded Matsushita's managers to give Seagram exclusive rights for two weeks to negotiate for MCA. Even the wooing of his current wife, Venezuelan Clarissa Alcock, took three years of work. He had to convince her Catholic parents to bless her marriage to a Jew. "This is not a capricious man," says producer Puttnam.

Bronfman will need all of his diplomatic skills to make this management transition a smooth one. Because Hollywood is a business built on relationships, moving Wasserman and Sheinberg aside is a delicate proposition. The foremost consideration is MCA's biggest moneymaker, director Steven Spielberg, who began his career at Universal and feels strong loyalty to its two top executives. Bronfman has toured Universal's 428 acres with Sheinberg and spent long hours listening to the executive's views on MCA's future. And in a lengthy meeting on Apr. 11 at Spielberg's Amblin Entertainment, which sits on Universal's lot, he did his best to lend comfort to Spielberg.

Solving the management issue is crucial. But it is only a first step toward unlocking MCA's values. Boosting performance will be tricky. When Michael D. Eisner brought his team to Walt Disney Co. in 1984, there were obvious ways to increase value

Universal's Pipeline: Hardly a Gusher

FILM	CHANCES	RELEASE
CASPER Spielberg uses *Jurassic Park*-type technology to bring ghosts to life. But a good ghost won't scare up enough merchandise business to make this a blockbuster.	B	MAY 26
APOLLO 13 With two-time Oscar winner Tom Hanks in this NASA disaster flick, word of mouth will be strong.	B+	JUNE 30
WATERWORLD With a $175 million price tag and Costner's bad vibes abounding, this Titanic in the making could be a blockbuster and still lose buckets of money.	D	JULY
BABE, THE GALLANT PIG Small budget and small premise: A bighearted pet pig that thinks it's a sheepdog. Huh?	C–	SUMMER
TO WONG FOO, THANKS FOR EVERYTHING, JULIE NEWMAR No pigs, but Wesley Snipes and Patrick Swayze as drag queens?	C	FALL
CLOCKERS Spike Lee takes on the drug scene. Spike is the champion of hype, but his flicks rarely fill seats.	C+	FALL
SUDDEN DEATH Jean-Claude Van Damme is likely to kickbox his way to a small fortune in this one.	A	FALL
CASINO Scorsese's tale of '70s Vegas. With Sharon Stone, Robert DeNiro, and Joe Pesci, could be the best-looking mobster flick this side of *Goodfellas*.	B	FALL
BALTO Spielberg animation. This tale of a heroic Alaskan sled dog should have more bite than his *We're Back* miscue. Still, even Spielberg ain't Disney.	C–	FALL

DATA: BUSINESS WEEK

UDIO CZAR?
ring Ovitz as chief
uld be costly

He ratcheted up theme-park ticket prices and began a vigorous strategy to spin characters such as Snow White and Mickey Mouse into video rereleases and merchandise es. Similarly, when Viacom bought Paramount in 1993, the dio's income was depressed, a situation that quickly re-sed itself thanks to such films under way as *Forrest Gump* l *Clear and Present Danger*.

EMIC SYNDICATION. MCA has no such quick fix. In t, its pipeline is clogged with an enormous li-lity called *Waterworld*. This infamous Kevin Cost-· epic could end up costing $175 million. And ugh some who have seen it say it is O. K., it will ly lose money even if it scores big. Rumor has it t the company has already taken an extra $50 lion reserve against earnings. It has been disrup-e in other ways as well. Because it was late, the dio apparently urged director Ron Howard to h up the release of *Apollo 13* from November to ie 30 to take over *Waterworld*'s early summer t. Studio sources say the rush to finish hiked price tag by about $5 million.

Waterworld-type fiascos are rare at MCA. But ically, that's the reason it will be hard for Bronf-n to get a Disney-like bounce in cash flow just by ng obvious problems. Bronfman told analysts A had $475 million in 1994 cash flow, a number erally thought to represent a peak. Squeezing more will mean reenergizing every part of the iness, with the possible exception of MCA Music l Geffen Records, which contributed 40% of cash v last year and are going great guns.

Most experts believe revamping the TV produc-n business is crucial. After making a killing in the l-1980s by syndicating hour-long shows such as *gnum P. I.*, MCA was slow to see the trend to-d half-hour sitcoms such as *Cosby* and *Roseanne*. Today, its y half-hour hits are *Coach* and *Major Dad*. Without more, an mic syndication business will remain so. In cable, MCA's y entry is the USA Network, a 50-50 joint venture with com. It is widely thought to be unfocused and sluggish.

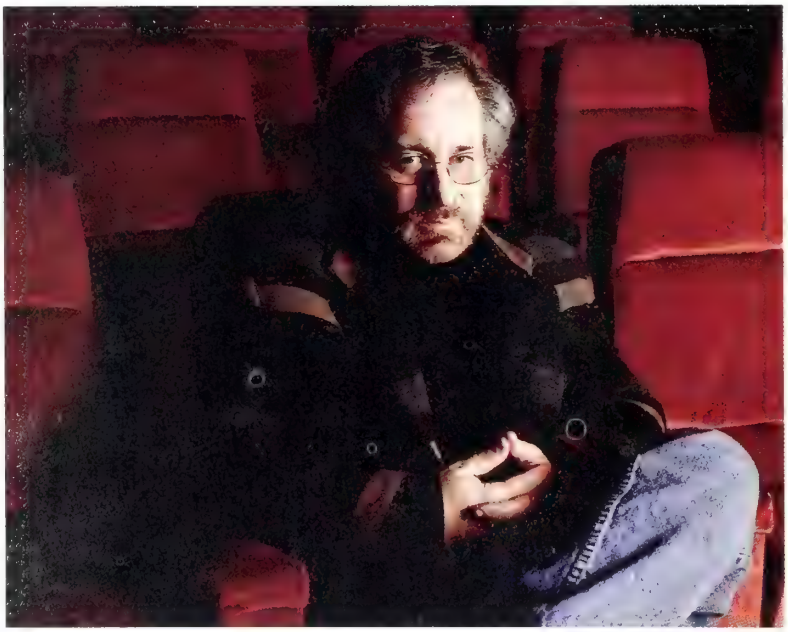
Theme parks are probably MCA's fastest-growing unit. But ing attractions like the Jurassic Park ride due to open in Florida will cost billions. And it is often forgotten that MCA only owns 50% of the park in Florida, which means that it only gets half of every dollar of profit.

Finally, there's the film unit and its dependence on Spielberg. Blockbusters such as *Jurassic Park* and *Schindler's List* have carried Universal for the past two years. The *Jurassic Park* video alone supplied one-third of MCA's operating profit in 1994, says a source close to the company.

THE HOUSE OF STEVEN. It may just be that in weaning itself from Spielberg, MCA would, in the long run, be better off. While much has been made of the director's relationship with Wasserman and Sheinberg, the tie has had its downside as well. Most damaging is that MCA has become known as The House of Steven. Spielberg's typical deal—he takes 15% off the top of every film he makes—leaves little money to pay other big picture directors, such as James Cameron and John Hughes. All this argues against depending on him for too much volume.

Bronfman's next steps are still unclear. There's plenty of speculation that he's itching to do a network deal with Diller. That would boost MCA's syndication business right away and add $460 million in cash flow, says Furman Selz Inc. analyst John Tinker. Sources within Universal say Bronfman also hopes to quickly create a cable channel out of MCA's library of 4,700 films, something like Ted Turner's TNT network. "The library is the one asset you can't overvalue," says Alan Horn, the chairman of Turner's Castle Rock studio. "Just ask the folks who thought Ted overpaid for the MGM library." Bronfman's likely partner in such a venture: TCI's John C. Malone, whose Encore pay channel has a multibillion-dollar, nine-year deal to air Universal's first-run movies.

The opportunity is indeed ripe. But questions still outnumber answers. Could Bronfman, whose creative urge dates back to his childhood, resist undue interference with his new manager? And if he snares Ovitz, can Hollywood's ultimate power player make the transition from agent to studio head?



TIES THAT SPELLBIND
Spielberg is loyal to MCA's old guard

Given declining worldwide liquor consumption and sluggishness at Tropicana, Bronfman's performance at Seagram hasn't silenced critics who say he was born to his position and didn't earn it. "He'll be dogged by that the rest of his life," says old friend Bruce Stark. Edgar Jr. has used his position to create the chance of a lifetime. Making the bet pay off, however, will take a lot more than chutzpah.

By Michael Oneal in New York and Ronald Grover in Los Angeles, with William C. Symonds in Toronto

(TOP TO BOTTOM) ALAN LEVENSON, MARK SENNET/ONYX

SHOW BIZ: DON'T COUNT JAPAN OUT

Matsushita stumbled, but others are thriving

For months, Matsushita President Yoichi Morishita gruffly brushed off suggestions that he was trying to sell MCA Inc. But on a sunny April morning, at his cherry blossom-festooned Osaka headquarters, he finally dropped all pretenses.

Morishita blamed the disaster on rapid changes in the multimedia market that made the unit unmanageable. More likely, by constantly thwarting MCA's expansion plans, he simply riled its powerful U. S. deputies beyond reconciliation.

Either way, Americans watching the rout of Matsushita Electric Industrial Co. are drawing some tenuous conclusions. Many see the botched Hollywood foray as proof that Japanese electronics and American entertainment don't mix. Sony Corp. could be next, they say. In the end, Japanese companies will give up on software and stick with building "boxes."

The Corporation

That conclusion, however, is off the mark. True, Matsushita failed to leverage hardware sales off MCA's *Jurassic Park*. It could have promoted its video-game machines by giving away free copies of spin-off games. And Sony Pictures Entertainment had a string of box-office flops, forcing a huge write-down last fall. It may try to sell as much as one-third of its studio holdings.

But synergy between software and hardware is alive and well. Smith New Court Inc.'s Tokyo analyst Joseph Osha points out that Sony makes good use of Billy Joel and Mariah Carey albums to market its minidisk audio players in Japan. For years, huge profits from such performers' sales have subsidized its low-margin audio gear.

DIGITAL VIDEODISK WARS. Possession of Hollywood studios has also added heft to both companies' bids in the raging format wars over digital videodisk (DVD), says Barclays de Zoete Wedd Securities (Japan) Ltd. analyst David Benda in Tokyo. These gizmos, due out next year, will hold untold hours of music and motion pictures.

What's more, the entertainment avenues Sony and Matsushita chose aren't the only alternatives. In 1992, Toshiba Corp. and trader Itochu Corp. each spent $500 million for 5.6% stakes in a spin-off of Time Warner Inc.'s entertainment business. The goal wasn't control. What Toshiba sought, says Vice-President Akira Kuwahara, was simply "good relations" with an entertainment software company and a home for its hardware wizardry. Today, the three companies are collaborating on DVD, cable TV, and schemes for the Info Superhighway.

But the best proof that the Japanese can manage software is the fact that their creations are everywhere. Super Mario Bros., Sonic the Hedgehog, and Donkey Kong Country crowd the videogame shelves, just as Mighty Morphin Power Rangers clog the airwaves. How many Americans realize that these bright-suited superheroes sprang, fully formed, from a Japanese TV show made by movie producer Toei Co. and toymaker Bandai Co.?

MORPHIN MUSCLE Power Ranger tie-ins are a money machine

For the American version, Toei supplies footage of Rangers fighting enemy Putties to U. S. licensee Saban Entertainment in Los Angeles, which splices in the well-scrubbed American high school kids. Launched in 1993 on Fox Children's Network, the Rangers still top children's television ratings. And synergy? Bandai sold $353 million worth of Ranger products in the U. S. and Europe last year. Japanese companies also created *VR Troopers*, *Super Human Samurai*, *Syber Squad*, and dozens of cartoons. Coming soon: a cyber-Barbie called *Sailor Moon*, featuring the Space Age school girls Bandai introduced in Japan—along with dolls—in 199[illegible].

In Asia, Japan's neighbors are throbbing to its cultural beat as never before—from the TV soap opera *Tokyo Love Story* to the pop group Southern All Stars. The wave is linking young people "from Tokyo to Singapore," says Shiro Honda, program officer at the Toyota Foundation. "It could foster dialogue on a scale and closeness never seen before." That is not the heady world of Hollywood, where Japanese and countless other investors have all gotten burned. But from the looks of it, Japan's affair with global entertainment has barely begun.

By Robert Neff in Tokyo, with Larry Holyoke in Osaka

Japan's Software Strongholds

SOFTWARE	COMPANY	DESCRIPTION
ALREADY HERE		
SUPER MARIO BROS.	Nintendo	Italian plumber with lots of heart
DONKEY KONG COUNTRY	Nintendo	Slick geographics on Super NES
SONIC THE HEDGEHOG	Sega	Magical blue critter
POWER RANGERS	Toei/Saban and Bandai	The ubiquitous Gang of Five
COMING SOON		
SAILOR MOON	Bandai	Cyber-Barbie with powers
MASKED RIDERS	Toei/Saban	Five new heroes on bikes
EARTHBOUND	Nintendo	Role-playing adventure
RIDGE RACER	Namco	For Sony Playstation

DATA: BUSINESS WEEK

THE DIFFERENCE BETWEEN INFORMATION AND INSIGHT

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FOR DUPONT, CHRISTMAS IN APRIL

Its buyback of Bronfman's stake puts the icing on a hard-fought turnaround

Early last fall, when Edgar Bronfman Jr. first called DuPont Co. CEO Edgar S. Woolard Jr. to propose selling most of Seagram Co.'s 24.2% stake back to the chemical giant, Woolard couldn't believe his ears. And no wonder: After a three-year slog, the tough shake-up Woolard had ordered at the chemical maker was finally paying off. With costs down, cash flow soaring, and record earnings on the way, it hardly seemed the moment to sell.

But if it was an odd time to sell, it was a great time to buy, and Woolard was happy to oblige. For much of 1994, he had been searching for a way to get some of DuPont's growing cash pile into shareholders' hands, and Wall Street was anticipating a buyback. Now, Bronfman, desperate to cash in his DuPont chips to move into entertainment, was handing Woolard a can't-miss deal.

And how. For as the dust settles over Bronfman's twin transactions, one thing is clear: In the short term, at least, DuPont appears to be walking away with by far the better half of the deal. While the move strips Seagram of the source of 70% of its net income, DuPont's reduced equity base should add 10% a year to earnings-per-share. Moreover, Woolard's savvy negotiations allow DuPont to effectively buy its stock back at 18% below market, saving $1.8 billion. And people close to DuPont say it's happily rid of its large—and somewhat pesky—shareholder, especially since the risk of the stake ending up in hostile hands is gone. "We are very excited," Woolard crows. "It's a once-in-a-lifetime opportunity."

Woolard isn't the only one with something to crow about. Although angry shareholders knocked 16% off Seagram's stock, DuPont's investors pushed its shares up 2%, to 62. Says money manager Mario Gabelli, who holds stakes in both companies: "This is terrific for DuPont shareholders."

DEADWOOD. Those shareholders may get even more icing on their cake: To fund the buyback of Seagram's shares, Woolard must sell $2 billion in assets. Although he hasn't yet decided what to shed, analysts list plenty of underperforming units. Woolard has instituted stiffer return-on-capital requirements across DuPont's businesses since 1993, but parts of its Conoco oil and gas business, imaging unit, and scattered chemical lines still don't measure up. Wall Street has pushed DuPont to sell these assets for years. Ironically, thanks to the big share buyback, investors may get their wish.

And even as Bronfman argues that his shift from plastic to celluloid will cut Seagram's dependence on a cyclical business with limited prospects, the best may be yet to come from the revitalized chemical giant. Harold A. Ofstie, a portfolio manager with Delaware Investment Advisers, which owns 5.36 million shares, thinks DuPont is far from topping out. "People will be surprised by their earnings power," he says.

It's all the more surprising because DuPont had so far to come. With huge civil-service-like bureaucracies in Wilmington and Geneva, it had long epitomized all that was stodgy and sluggish in Corporate America. But faced with stagnant sales and sliding profits in the early 1990s, Woolard began to dramatically transform the company. Under the whip of t

How Woolard Has Transformed DuPont

CUTTING COSTS Since 1991, Woolard has pared DuPont's workforce by 25%, to 107,000, and shrunk headquarters operations in Wilmington and Geneva.

ENDING BUREAUCRACY In 1993, Woolard cut 5 management layers and split DuPont into 21 semi-autonomous "strategic business units." Now, operating managers have more freedom to make deals and invest capital.

STREET WORK Woolard hobnobs with stock analysts. Investors are bullish

ASIZING RESULTS In place of bureaucratic over- Woolard has imposed strict financial targets and nance-linked pay. Managers are left alone to run usinesses—but are expected to deliver.

SING ON CUSTOMERS Long an inward-looking, ıt company, DuPont is becoming far more market- d; close cooperation with customers has enabled it elop lucrative new niches for mature products such ın. Together with DuPont's expanding foreign pres- -international now brings 47% of sales, up from in 1989—that's helping to reduce cyclicality.

t-talking but tough-minded CEO, DuPont's crushing bu- ucracy has been dismantled, overhead costs have been shed, and front-line managers have been freed to operate e entrepreneurially. To reduce cyclical swings, Woolard has anded abroad, while a sharpened focus on customers is pelling growth in once tired products such as nylon.

As with many corporations, DuPont's transformation fol- ed a crisis of competitiveness. After taking the helm in 1989, olard banked on continuing a strategy of diversifying into her-growth areas such as pharmaceuticals and electronics. the payoff was slow, and as recession hit, Woolard realized t bureaucracy wasn't helping. "We had to face reality," wls the genteel 61-year-old CEO, a North Carolina native ı joined DuPont straight from the Army 38 years ago. "Our costs were too high, and we had become too slow to respond."

Woolard began in 1991 by slashing thousands of middle-management posts, selling $2.8 billion in ill-fitting businesses, and reengineering those remaining. He has cut 37,000 jobs to shrink DuPont staff to 107,000. So many people left that DuPont has halved its headquarters office-space needs, to 2 million square feet.

But the biggest moves came in 1993, as Woolard realized that cutting costs wasn't enough. Far more focus was needed on markets. "I had to get a much larger percentage of people in the company to understand that customers pay our bills," he says. So he split DuPont into 21 strategic business units (SBUs), from a $700 million-a-year synthetic fabrics unit to Conoco Inc.'s $13 billion retail gasoline operations.

Now, each SBU operates as a free-standing unit, and managers report directly to Woolard or a handful of top aides. Gone is a complex hierarchy in which a half-dozen middle managers once stood between the CEO and operating business heads, and another six between them and their sales staffers.

The changes are paying off. Although DuPont's 1994 sales rose just 6%, to $39.3 billion, net income excluding one-time charges soared 65%, to a record $2.7 billion. A strong economy helps: Chemical makers are all riding a rising tide. But DuPont has done better than most—and unlike rivals such as Dow Chemical Co. and Union Carbide Corp., which are enjoying soaring prices for commodity chemicals, its specialized products haven't yet seen big price jumps.

The image of DuPont has morphed from giant sloth to gazelle

Certainly, DuPont cannot escape economic ups and downs. Still, Bronfman appears to be jumping from a train just now gaining a full head of steam. Analyst James F. Hickman at CS First Boston predicts several strong years to come: Excluding asset sales to fund the buyback, Hickman predicts a sales rise of about 5.5% annually through 1996, while earnings should jump 17.3%, to $3.2 billion, this year and 23%, to $3.9 billion, in 1996. Hickman argues that DuPont has come closer to taming the cycle than most chemical makers.

That's because Woolard's restructuring has gone far toward minimizing the swings the company will suffer. For starters, he has improved DuPont's global spread: From 39% in 1989, it now gets some 47% of sales overseas and nearly 36% of aftertax operating profits. Europe and Asia—where DuPont has built a dozen plants since the late 1980s—are seeing double-digit growth. More important, he has sharply reduced breakeven: Annual overhead costs have fallen from $3.7 billion in 1990 to less than $2.9 billion. By forcing suppliers to reduce inventories and improve efficiency, Woolard has also cut nearly $1 billion from supplier costs. They're now down to $22 billion, and Woolard insists that suppliers deliver new savings of 5% to 10% every year.

HARD AND FAST GOALS. Thanks to the shaved costs, operating margins have gone from 5.4% to 8% since 1992 and are expected to top 9% by 1996. The benefits flow straight into DuPont's coffers. Operating cash flow, which fell to $4.38 billion in 1992, topped $5.3 billion last year and Donaldson, Lufkin & Jenrette analyst William R. Young says that, excluding asset sales, it should hit $5.9 billion in 1995. With capital spending down, free cash flow—operating cash flow after dividends and capital spending—is soaring. From a negative $1.2 billion in 1992, DuPont should rake in more than $2 billion

in free cash flow over the next two years (charts).

For all that, the restructuring job is only partly finished. Growth will depend largely on Woolard's push to create a customer-driven culture. Early signs are good: Customers say the new SBUs have become far more responsive. "DuPont had a take-it-or-leave-it attitude," says Edward Andrew, chairman of British industrial-fabric maker Andrew Industries Ltd. Now, dealing with the company is "simpler, quicker, and more efficient."

But for DuPonters, the changes have been invigorating and unsettling. Greater responsibility means people can no longer blame higher-ups for decisions, while more managerial freedom also means more risk. "When I joined DuPont, if you kept your nose clean and worked hard, you could work as long as you wanted," says 21-year veteran Gary M. Pfeiffer, head of the North American nylon unit. But today, he says, "job security depends on results."

For DuPont veterans like Stephen M. Long, that means developing the more entrepreneurial instincts needed to spark growth in once mature businesses. After Chrysler Corp. asked DuPont to tailor a plastic bumper with the distinctive "smile" for the company's hot-selling new Neon, for example, Long ramrodded through an unprecedented development effort. At stake: sales of $3 million annually—and an important beachhead in the car business.

PLASTIC FANTASTIC Anderson and Long with the quickly tailored Neon bumper

MIDNIGHT OIL In the old DuPont, approval would have taken years as Long sent endless memos through layers of higher-ups and waited for clearances to pull staffers from other units. Instead, Long phoned colleagues in West Virginia and Wilmington and cobbled together an informal team that set to work with Chrysler immediately. "DuPont was 100% supportive. If anything faltered, they stayed up all night," says David L. Anderson, a Chrysler engineer. "I know—I was up with them." Long's perseverance paid off: After completing the technically difficult project in just nine months, his team won the order.

Even the SBU heads have to learn to manage in a far more freewheeling way. Salim M. Ibrahim runs the $1 billion Lycra business from Geneva, for example. But his marketin director works in Wilmington and his 11 other top aides ar scattered around the globe. Ibrahim meets with them jus four times a year. "The company has given me a lot of free dom to operate as if it was my own business," Ibrahim say

Ibrahim's autonomy is a sharp change. Back in 1984, needin $7 million to buy factory equipment, he underwent two week of detailed preparation for a two-hour grilling by middle-mar agers—only to be turned down. But when he wanted $70 mi lion to expand a Singapore Lycra plant recently, he got th O. K. a week after discussing it with Woolard over breakfas

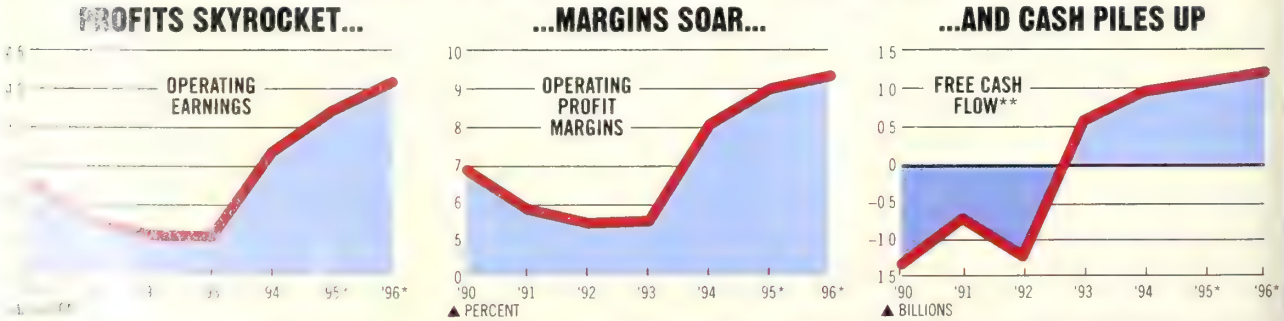
Of course, such trust springs from his track record: Ibrahi has tripled Lycra sales since 1986. That's the other side autonomy: Managers are left to run their businesses, but mus perform. Woolard sets strict targets with all SBU heads, who d the same for staffer And to ensure all go ag gressively after bus ness—without givin away the compan store—a large part many managers' pay de pends on both sales an profitability of the SBU

While the goals ar meant to sharpen cu tomer focus, there ar limits to just how co DuPont can be wit buyers. Lately, relatio have been tested wit price hikes. After yea of declines, the price widely used hydroge peroxide has climbed by about 5% since Se tember. Says a top exec: "A delighted custome is probably someone not paying enough."

To soften the blow, DuPont is stretching o delivery times and selling smaller lots. For yea it wouldn't sell nylon in the smaller lot siz some Japanese preferred, for example. "They acted like sellin to us was a favor," recalls Fumitaka Yoneda, sales director Toa Wool Spinning & Weaving Co. Now, he finds it more r sponsive—though other Japanese buyers say they would l happier if DuPont passed on savings from the higher ye "I'm not out to delight my customers," counters Ned C. Jac son, chief of the $2 billion-a-year specialty chemicals SBU. "I ju want to become indispensable to them, so they can't live wit out me." DuPont may not be indispensable quite yet, b thanks to Woolard's makeover, it's a lot closer than ever befo

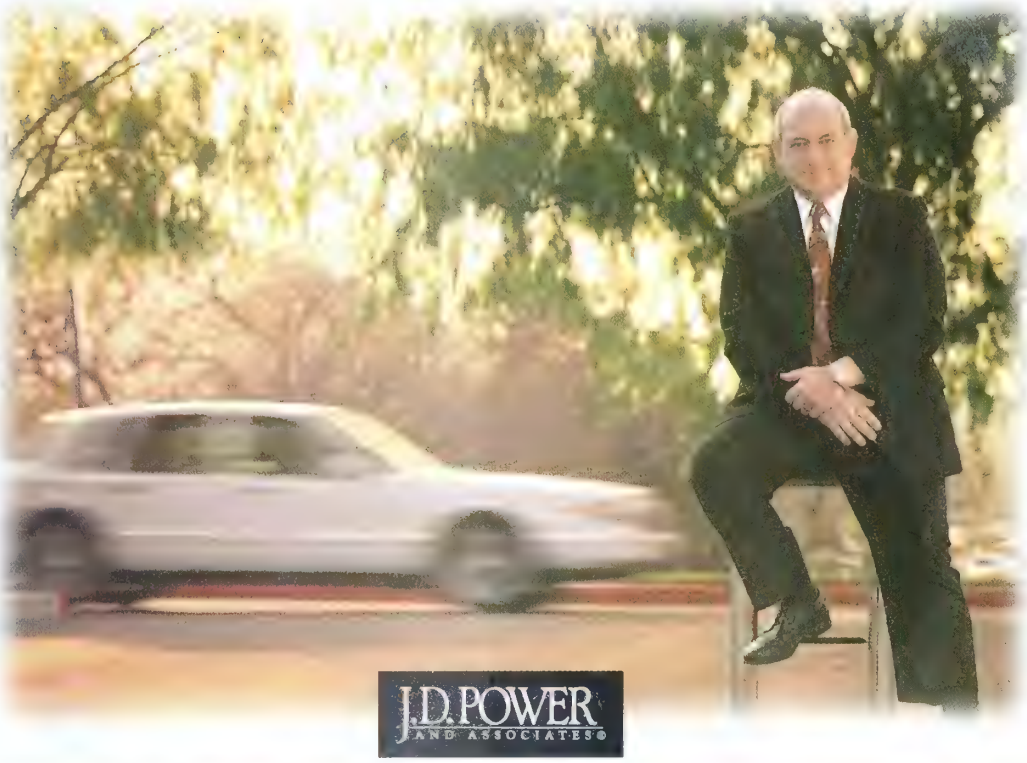
By Joseph Weber in Wilmington, with Linda Bernier Brussels and Edith Updike in Tokyo

DUPONT'S RESTRUCTURING TAKES HOLD



*ALL ESTIMATES BASED ON DUPONT'S BUSINESS LINES AS OF MAR. 31, '95 **OPERATING CASH FLOW AFTER CAPITAL EXPENDITURES AND DIVIDENDS DATA: COMPANY REPORTS; DONALDSON, LUFKIN & JENRETTE SECURITIES CORP.

J.D. Power and Associates Drives Decisions with the SAS® System



Will the cars on the drawing board today meet consumer demands of tomorrow? That's the question facing J.D. Power and Associates. The answers are coming from the SAS System.

"We produce a monthly forecast of car and truck sales for about 300 different vehicles," says Jon Rosenthal, Manager of Automotive Forecasting for J.D. Power and Associates. "Each vehicle is forecasted by month for five years beyond the current year. Right now I'm forecasting through the year 2000."

The SAS System Fits Our Business

"The SAS System is the fuel behind those forecasts...our software of choice for analyzing sales, economic, and auto industry data and then reporting what we've learned," adds Rosenthal. "Before the SAS System, much of the forecasting was done by hand. To make our forecasts credible, we had to have a credible system. One that made it easy to build applications and put them to work across our computing environments. We've got minis, Macs, desktop publishing, and a lot of spreadsheets. The SAS System fits the way we do business."

The Bottom Line is Information

Now that the forecasting model is up and running, Rosenthal and his staff are using the SAS System to build an interactive database. "The Power Information Network will allow an auto dealer or manufacturer to go online and get market information," Rosenthal explains. "When released, subscribers will be able to select from a long menu of reports and data. The versatility of the SAS System is crucial in developing the reports."

"The bottom line is this: applications are being developed with the SAS System that will deliver the most up-to-date information to those who make decisions for the automotive industry," says Rosenthal. "If manufacturers and dealers can get their hands on accurate market information and predictions, they have a much better chance of meeting customers' needs down the road."

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POWER LIFT CEO Kahng intends to sell Macintosh compatibles to consumers by mail order while building clones for other PC makers

COMPUTERS

WILL THE APPLE CLONES BEAR FRUIT?

Power Computing is betting they will–but the market is iffy

Power Computing Corp.'s employees work at used, gunmetal-gray desks. Some have brought in their own computers. Few get business cards, which are regarded as a luxury. And when it's time for a break from the 18-hour-a-day, startup grind, they switch on the string of Hello Kitty lights looped around their cubicles and, on Thursdays, dig into free nachos and beer—although never the imported stuff. Welcome to the birthplace of the Macintosh clone industry.

This 18-month-old startup is one of a handful of Mac cloners that hope to tap demand for Macs sans the Apple logo. Others include Radius Inc., which will offer a $12,500 computer for publishing and video professionals; DayStar Digital Inc., which plans Mac-compatible publishing workstations; and consumer-electronics giant Pioneer, which will sell to the Japanese home market.

But Power Computing is not only the first—it plans to announce its clones on Apr. 17—it's the only one aiming squarely at the broad ma ket that Apple Cor puter Inc. hits. Th company plans t start shipping May and produce 10,000 t 15,000 units a mont by July, when it w add a sub-$1,000 mo el for the home ma ket. Even if it hi its goal—100,000 m chines in the next 1 months—Power Cor puting won't put a dent in Apple, whic will ship 4.5 million Macs this year. But could prove there is an appetite for Ma software without the Apple brand. Say analyst William M. Bluestein of mark researcher Forrester Research Inc.: "A eyes will be on Power Computing."

They'll be on Apple, too. Apple exe utives say a successful clone business key to boosting the company's mark share substantially from the curre 10%—and keep it among the industry top players. Apple lost ground in 199 and analysts say it may be losing sha now because it can't build enough hig end Power Macs, and Wall Street h been paring estimates for the Mar quarter. PaineWebber Inc., for exan ple, lowered its per-share earnings for cast from $1.06 to 93¢.

AGGRESSIVE PRICING. All this puts mo pressure on Apple to manage the tra sition to the clone era adroitly. Th plan, say company insiders, is for App to function in a world of Mac clon the way Compaq Computer Corp. do in the PC clone market: Apple will pri aggressively but slightly higher tha the lowest-cost brands and will us superior research and development t bring out new features first. On Apr. Apple announced a reorganization t prepare for the new push. It places a hardware and software developme under David C. Nagel, formerly head Apple's system-software unit. His jo create leading-edge products in are such as multimedia, 3-D graphics, co munications, and the Internet.

That should make Apple stand o from today's cloners and make it sa to take on powerful licensees such a IBM, Motorola, and Goldstar—all i talks with Apple. In addition, the R& push should help fend off Microso Corp., which plans to ship the Ma threatening Windows 95 in Augus Says Tim Bajarin, president of Creativ Strategies Research Internationa "This will help them stay ahead tw or three steps."

Near-term, there is little to be lo

Trevino

Snead

Rodriguez

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and something to be gained. Altogether, Mac cloners will likely ship 280,000 units this year, predicts Mac market analyst Pieter Hartsook. Even if sales come at the expense of Apple, the company will ring up licensing fees and added sales of laser printers, monitors, and software from its Claris unit.

Apple's strategy: Use superior R&D to bring out new features ahead of the clones

What are the prospects for the Power Computing clones? The machines, which resemble ordinary PC clones, consist of three models, the Power 80, 100, and 110. The company isn't disclosing prices yet but is expected to undercut Apple by 10% to 30% (table). Says CEO Stephen S. Kahng: "Basically, our goal is to make Mac affordable to a lot of people."

If the strategy seems familiar, it is. Power Computing is the brainchild of Olivetti Vice-Chairman Elsorino Piol, who wanted to build a high-volume business around the PowerPC chip used by Apple, IBM, and Motorola. He put heads together with friend and former colleague Enzo Torresi, who co-founded Businessland and Netframe Systems Inc., to find the person to run the new venture.

SIMPLE BOXES. Their choice: Kahng, an engineer who in just six months—and for just $200,000—came up with a design that made Leading Edge a top-selling IBM clone in the mid-1980s. Since then, he has designed computers for Samsung and Goldstar and consulted for Digital Equipment and Compaq. Olivetti ponied up $5 million. "We knew he was the man for us," says Piol. Torresi, who signed on as chairman, Kahng, Carlton G. Amdahl, co-founder of Netframe, and Piol put in about $500,000. And Kahng is now raising $5 million to $10 million from venture capitalists.

Kahng, 45, is pushing a two-pronged strategy: Sell Mac clones by mail and build them for other computer makers to sell. Kahng won't say which PC makers will buy, but sources close to the company say candidates are Goldstar, Olivetti, and Acorn Computers Ltd.

For now, the chief focus is cost. R&D is in Silicon Valley, where Kahng hired seven former Apple engineers, including Carl Hewitt, a key member of Apple's Power Mac team. But the factory and the mail-order facility—which is already getting 300 to 400 calls a day—are in Austin, Tex., where overhead is lower. To shave costs, Kahng used many off-the-shelf components and redesigned the motherboard in the same shape used by IBM PC clones. And his simple boxes are far cheaper than Apple's fancy cases. The result: He can be profitable at 20% gross margins—like the lowest-cost PC cloner. "We'll be competing with PC clones—price for price," Kahng says.

Will it be enough? There's little doubt that sales will surge initially. "The real test is next year, when Apple will evaluate the clone market and respond," says Bajarin. "Apple could match them in pricing." If anybody can create—and survive—the Mac clone market, Kahng may be the man. "Steve knows his stuff. He's a great engineer, and he's well connected around the world," says Russ Irwin, a former Apple executive and now NEC Corp.'s vice-president for multimedia business development. "They have the real potential for a Cinderella story here." If not, after the ball, it's back to the drawing boards on those second-hand desks.

By Kathy Rebello in Milpitas, Calif., with John Rossant in Rome

The Power to Clone

POWER COMPUTING			APPLE COMPUTER	
Power 80	Power 100	PRODUCT	Power PC 7100	Power PC 8100
80 Mhz	100 Mhz	CLOCK SPEED	80 Mhz	100 Mhz
8 MB	8 MB	MEMORY	8 MB	8 MB
365 MB	730 MB	DISK STORAGE	500 MB	700 MB
$1,995*	$2,899*	PRICE	$2,899	$3,699
No	Yes	CD-ROM	No	No

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May 18	Albany, NY
June 7	Frankfurt, Germany
June 15	Rochester, NY
June 22	Buffalo, NY
June 27	New York City #2
June 29	Jersey City, NJ
July 12	London, England
July 18	Stamford, CT
July 20	Boston, MA
July 25	Long Island, NY
July 26	New York City #3
July 27	Morristown, NJ
August 1	Syracuse, NY
August 3	Chicago, IL*
August 9	San Francisco, CA*
August 15	Paramus, NJ
September TBD	Mexico City
September 28	Atlanta, GA*
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EDITED BY AMY DUNKIN

REAL ESTATE: GETTING IN ON THE GROUND FLOOR

As the commercial real estate market pulled out of a slump—lasting from 1987 to 1990—the mutual-fund industry responded with a boomlet in funds that invest in property. These funds charged ahead, with average gains of 23% a year from 1990 through 1993, then paused to catch their breath. For investors who want current income and diversification, this could be the time to hop on board before they resume their ascent.

Future returns may not be so dramatic, but analysts say the upswing has at least five more years to go. One reason: New construction has fallen off in recent years, so a lot of late-'80s oversupply has been sopped up. "Although the economy is slowing, it's still growing, and that means increased demand for commercial real estate assets," says Lehman Brothers analyst Michael Giliberto.

INVESTING

Investing in commercial property is far easier now that real estate mutual funds have, since 1990, soared in number from 5 to 22 and in asset size from $80 million to $1.5 billion. Previously, the most accessible route was to buy real estate investment trusts (REITs), bundles of properties sold as stocks. But REITs tend to focus on one sector, such as shopping malls, and can be hard to evaluate. Funds invest in many types of REITs, diversified across property types and geographical regions. They can also reach into related fields, such as construction or building-materials companies.

Because property funds react to supply and demand in the real estate cycle, usually longer than the equity cycle, their performance varies from stocks, and thus they help diversify a portfolio. They are also less interest-rate-sensitive than bonds or utilitie "When the Fed first starte raising rates and utilities go smashed, REITs did well says Robert Steers, co-ma ager of Cohen & Steers Rea ty. Or at least better. For th first half of '94, realty func lost 2.2% vs. a 9.5% defic for utilities. And since they' less rate-sensitive, propert funds may serve as an infl tion hedge. Higher rates ca enhance hard asset valu and drive up rents—and i vestor income. They rais construction costs, makin property more valuable. A real estate funds are less v atile than other hedges su as gold funds.

TAX BREAK. Like bonds a utilities, funds pay regular i come, currently about 4 But as the economy grow fund dividends are poised f growth of 8% a year, as ma agers raise rents, says Gi berto. Bond income can't i crease, and regulato restraints should hamper t payout from utilities.

Another plus is the t treatment that property-fu dividends receive. A p tion—usually one-quarter considered return of capit so it's not taxed. Instead, goes to reduce the basis your fund shares. When y cash out, you pay capit gains on the difference. Th if you bought a share of delity Real Estate Inve ment Fund for $20 and ceived $4 in dividends, would go toward reduci your basis to $19 for the f lowing year. You would taxed currently on only $3

Real estate funds are la ging for the moment. Aft a feverish three years, th stumbled in 1994 but s pulled ahead of stocks a bonds, returning 3.17%, 1.29% for the Standard Poor's 500-stock index a -2.92% for the Lehm Brothers bond index. W the lull? Too many RE came to market in 1993. O big REIT, Manufactured Ho Communities, didn't meet earnings estimates last ye and yield-seekers who bou

estate funds ran back to ds as rates rose.

ut analysts say this situa- can't last. Short of a re- ion, the fundamentals are strong, and an increase ension-plan investments eal estate funds should drive up prices, says ry Greenfield, manager of elity Real Estate. He ks REITs will rise again to 12 months. So now be a good chance to buy: e fundamentals are the e, but the prices are n," says Morningstar ana- A. Jason Windawi.

hen choosing a fund, you nt start with a veteran, use many new funds are than a year old. Fidelity l Estate, started in 1986, ne of the most conserva- With an average annual rn of 12% over five years, eks safety over perfor- ce by sticking with "blue " REITs, says Greenfield. He may sacrifice gain but doesn't get hurt as badly when the market dips. He owns mostly apartment and retail REITs.

Slightly more aggressive is Cohen & Steers. With a three-year annual return of 14%, it has outperformed the stock market—with one-third the volatility—by seeking top-tier REITs with demonstrated ability to raise dividends, says co-manager Steers. He looks for regions with strong economies and for properties enjoying the best supply-and-demand balance. He favors apartments and malls, many of which are selling at deep discounts to their real estate value.

Two newcomers, CGM Realty and RPF Real Estate Securities, are run by managers with respected non-REIT track records. They are both fans of hotels and storage facilities, which have been in great demand lately. CGM is down 1.43% since it started last May. Manager Ken Heebner avoids bigger REITs and bets on smaller, less-followed companies selling at lower multiples and higher yields. RPF manager Andrew Davis, whose fund was down 1.76% over the past 12 months, spreads his assets into insurance companies with large real estate portfolios.

Dangers lurk. The small, high-dividend REITs that CGM likes may not be able to boost dividends further, says rival Steers. And the non-REIT stocks that RPF favors can backfire. Sam Lieber's Evergreen U.S. Real Estate Equity Fund lost 12% in '94 because of a 26% weighting in construction shares, which fell as interest rates rose.

Moreover, since there are only 200 public REITs, trouble for one biggie can hurt the whole market. And real estate is cyclical—so it will dip again. But many pros believe that won't be for quite a while. In the meantime, real estate funds can add diversity to your portfolio and current income with potential for growth. And they will never wake you up at 3 a.m. to complain that the pipes have burst. *Pam Black*

How the Returns Stack Up

FUND	CURRENT YIELD	TOTAL RETURN 12 MONTHS	TOTAL RETURN 3 YEARS
COHEN & STEERS	3.8%	–0.28%	14%
FIDELITY	5.3	–2.43	9
PRA REAL ESTATE	6	–5.0	10
RPF REAL ESTATE	4.2	–0.82	NA

DATA: MORNINGSTAR INC.

MART MONEY

OW TO BET GAINST HE BUCK

the U.S. dollar ntinues its record de against major rrencies, foreign

hange plays may seem an easy way to make ney. But they're not. vements are notoriously d to predict, l the dollar has eady plunged % against the anese yen and % against the rman mark ce January, 4. "At these els, it would be ying with fire count on contin- l appreciation he yen vs. the lar," says Nicholas Sargen, strategist at J.P. Morgan's Private Banking group. And against the mark, which is stabilizing, "the story is somewhat the same," he adds.

Still, many experts believe the dollar will continue to weaken until the Fed raises interest rates further. If you agree, you may want to try to profit by buying a certificate of deposit denominated in another currency. These are available only at a few U.S. banks, such as Citibank (800 755-5654) in New York and Mark Twain Bank (800 926-4922) in St. Louis. Both offer CDs with three-month to one-year terms in a variety of currencies, as well as an accompanying foreign-denominated money-market account for short-term holdings. Citibank's minimum investment is $25,000. At Mark Twain, it's $20,000.

BIG RISK. The CDs are federally insured, but don't confuse these with ordinary CDs. Your risk comes when you convert back into dollars. "There is significant risk and opportunity," says Citibank's Jeffrey Volk. For example, if the dollar fell 10% against the yen while you held a $20,000 investment in a one-year CD paying 1%, you would net $22,444 (including interest) at maturity—for a 12.2% return. But if the dollar strengthened 10%, only $18,363 would be returned to you—an 8.18% loss. If you put the money in a U.S. CD paying 6%, you would end up with $21,200 risk-free.

You can probably get a higher rate by buying a one-year foreign-government bond, but you could face a high minimum-purchase, and the principal wouldn't be insured by the FDIC. Besides, foreign CDs have other uses: If you plan to make major purchases abroad, you could set the currency aside ahead of time. Or if your foreign bonds mature and you don't want to convert them into dollars, you can hold the cash in a nondollar CD.

Even if you think this is the wrong time to bet against the dollar, asset allocators say foreign currency should play a small role in individual portfolios as a way to diversify risk. Just know that if you jump into this arena you won't always have the easy ride we've had this year. *Amey Stone*

Currency Plays the CD Way

$20,000 1-YEAR CD YIELD*	TOTAL RETURN IN US$ AT MATURITY: IF US$ DOWN 10%	IF US$ UP 10%	NO CHANGE
SWISS FRANCS 2%	$22,667	$18,545	$20,400
GERMAN MARKS 3.5%	23,000	18,818	20,700
NEW ZEALAND DOLLARS 7.5%	23,650	19,350	21,500
JAPANESE YEN 1%	22,444	18,363	20,200

* As of Apr. 6, 1995

DATA: MARK TWAIN BANK

ALAN BASDEN/BW

SHADY OPERATORS IN LONG DISTANCE?

One Saturday morning last January, someone called from AT&T to ask if I wanted to reinstate AT&T as my long-distance carrier. Funny thing was, I had never left AT&T in the first place.

Or so I thought. But when the bill from my local carrier, Nynex, arrived in my mailbox a few days later, it also contained a statement from Sonic Communications, a long-distance outfit in Roswell, Ga., that I had never heard of. Worse still were Sonic's rates: The company charged me $104.42, including taxes, for eight calls between Manhattan and Silver Spring, Md. Under my AT&T discount plan, those same calls would have cost $29.66.

I had been a victim of "telephone slamming"—having your long-distance service switched from one carrier to another without your knowledge or consent. "Slamming is becoming an increasingly common type of consumer fraud," says California Attorney General Daniel Lungren, whose office in February filed a complaint against Sonic, seeking $5 million in restitution for thousands of California victims, $1 million in civil penalties, and an injunction. Illinois, Georgia, and New York have also sued Sonic over the alleged scam.

GRAY TIME. On Apr. 7, Sonic filed for Chapter 11 in federal bankruptcy court in Atlanta. Responding to the states' allegations, Charles Helein, an attorney for Sonic, says: "We are denying any intentional effort to mislead consumers into taking our service. We have followed a consistent policy that any consumer who has complained has been given a refund."

PHONING

Sonic is not the only alleged culprit. The Federal Communications Commission has received more than 4,000 complaints of unauthorized switching since 1992. AT&T estimates tens of thousands of its customers are slammed every month, and it found that 7% of those surveyed who left AT&T between April and September of last year were slamming victims. In March, the FCC issued a $1.4 million "notice of apparent liability" against Oncor Communications, claiming that Oncor slammed numerous pay phones in New York. "Oncor admits the phones were switched but denies any intentional wrongdoing," says Gregory Casey, regulatory attorney for Oncor.

Under current FCC rules, a phone company must obtain a customer's authorization, typically in a so-called letter of agency, before a switch. But consumers may unknowingly approve such a change when they sign contest entries or prize forms. According to court papers, Sonic sent unsolicited $10 checks to thousands of consumers, including many with Hispanic surnames. By endorsing the checks, these people unwittingly gave their O. K. to a switch. On the back, in light-gray, nearly illegible type, was the authorization for Sonic to become their long-distance provider. But some consumers complained they were switched without receiving or signing checks. I never got one: A Sonic rep told me that an Olga Perez, whom I didn't know, had endorsed a check, presumably for my number.

To help thwart slamming, the FCC proposed new rules requiring that a document to O. K. a change may not be combined with a sweepstakes, check, or other come-on. And the authorization form must be written in "clear and unambiguous" language with print of "sufficient size."

Consumers who suspect they have been slamm should immediately call a write their local and long-d tance phone companies a the fraudulent carrier and g switched back. You shou also notify the FCC, your sta attorney general, and consu er outfits such as Call F Action (202 537-0585).

STILL HAGGLING. Victi should ask their local pho company to waive any rec nect fees. The onus is on t slammer to prove a legi mate authorization was g en. You may also refuse pay the higher rates charg by the offending carrier, a did. Tell your Baby Bell y are formally disputing the e cess charges.

Still, the exercise can frustrating. Although a So rep said the company mad mistake and agreed to ab by AT&T's rates, I am still h gling with Nynex and So over charges. And althou my non-Sonic charges w paid, Nynex initially thre ened to cut off my service.

To prevent slamming fr happening at all, some lo phone companies, includi Ameritech, Bell Atlan Nynex, and Pacific Bell, you put a freeze on y long-distance service, me ing a change can occur o when you approve the swi yourself—not when the n company says so. Amerite Bell Atlantic, and Nynex cept a phone call to undo freeze. Pacific Bell custom must write in. Having bee slamming victim, I think keep my service on hold fo while.

Edward B

WORTH NOTING

■ **ESTATE PLAN.** A new 56-page booklet from a top accounting firm explains how to structure property ownership so that your wealth gets passed to your loved ones—not the tax collector. Write for a free copy of *Wealth Preservation: Planning for Your Estate* to Kay Gentile, Coopers & Lybrand, 1800 M Street N. W., Washington, D. C. 20036.

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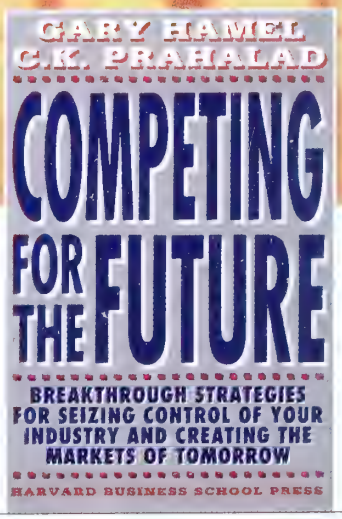

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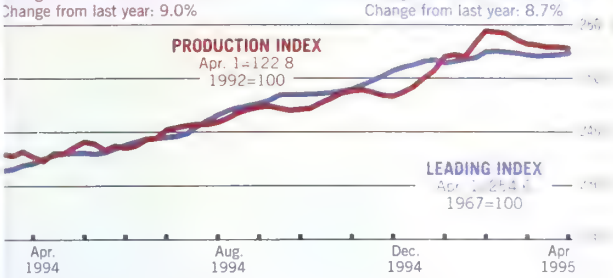
usiness Week Index

ODUCTION AND LEADING INDEXES

Change from last week: –0.1%
Change from last year: 9.0%

Change from last week: [illegible]
Change from last year: 8.7%



ndexes are 4-week moving averages

production index fell slightly during the week ended Apr. 1. Before ulation of the four-week moving average, the index was unchanged at .1. For the entire month of March, the production index fell to 122.8, 123.2 in February.

leading index edged higher in the latest week. The unaveraged index also , to 255.5, from 255. The March index stood at 254.6, only slightly e February's reading of 254.5.

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PRODUCTION INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
STEEL (4/8) thous. of net tons	1,995	1,980#	5.1
AUTOS (4/8) units	128,882	147,418r#	6.5
TRUCKS (4/8) units	117,118	119,651r#	13.5
ELECTRIC POWER (4/8) millions of kilowatt-hrs.	54,197	54,969#	3.4
CRUDE-OIL REFINING (4/8) thous. of bbl./day	13,512	13,478#	2.8
COAL (4/1) thous. of net tons	20,953#	21,226	1.2
PAPERBOARD (4/1) thous. of tons	931.4#	923.4	4.6
PAPER (4/1) thous. of tons	859.0#	849.0r	5.9
LUMBER (4/1) millions of ft.	436.4#	449.9	–6.8
RAIL FREIGHT (4/1) billions of ton-miles	24.4#	24.2	8.4

Sources: American Iron & Steel Institute, *Ward's Automotive Reports*, Edison Electric Institute, American Petroleum Institute, Energy Dept., American Forest & Paper Association, WWPA[1], SFPA[2], Association of American Railroads

ADING INDICATORS

	LATEST WEEK	WEEK AGO	YEARLY % CHG
CK PRICES (4/7) S&P 500	505.04	502.63	13.1
PORATE BOND YIELD, Aaa (4/7)	8.05%	8.08%	1.9
USTRIAL MATERIALS PRICES (4/7)	114.0	113.9	NA*
INESS FAILURES (3/31)	304	288	–4.7
L ESTATE LOANS (3/29) billions	$470.1	$468.5	11.1
NEY SUPPLY, M2 (3/27) billions	$3,604.9	$3,602.7r	1.5
TIAL CLAIMS, UNEMPLOYMENT (3/25) thous.	338	348r	2.1

rces: Center for International Business Cycle Research (CIBCR), Standard & 's, Moody's, *Journal of Commerce* (index, 1990=100), Dun & Bradstreet (failures rge companies), Federal Reserve, Labor Dept. CIBCR seasonally adjusts data on ness failures and real estate loans. *Historical data available from CIBCR

PRICES

	LATEST WEEK	WEEK AGO	YEARLY % CHG
GOLD (4/12) $/troy oz.	390.050	392.050	2.2
STEEL SCRAP (4/11) #1 heavy, $/ton	137.50	137.50	0.0
COPPER (4/8) ¢/lb.	143.3	145.1	57.8
ALUMINUM (4/8) ¢/lb.	91.8	89.5	48.0
COTTON (4/8) strict low middling 1-1/16 in., ¢/lb.	99.59	97.42	36.6
OIL (4/11) $/bbl.	19.84	19.07	24.4

Sources: London Wednesday final setting, Chicago market, *Metals Week*, Memphis market, NYMEX

TEREST RATES

	LATEST WEEK	WEEK AGO	YEAR AGO
ERAL FUNDS (4/11)	5.91%	6.08%	3.37%
MMERCIAL PAPER (4/12) 3-month	6.13	6.14	3.96
TIFICATES OF DEPOSIT (4/12) 3-month	6.12	6.13	3.90
ED MORTGAGE (4/7) 30-year	8.61	8.59	8.50
USTABLE MORTGAGE (4/7) one-year	6.40	6.37	4.98
ME (4/12)	9.00	9.00	6.25

rces: Federal Reserve, HSH Associates, Reuters Holdings PLC

FOREIGN EXCHANGE

	LATEST WEEK	WEEK AGO	YEAR AGO
JAPANESE YEN (4/12)	83.88	86.30	103.92
GERMAN MARK (4/12)	1.40	1.38	1.71
BRITISH POUND (4/12)	1.59	1.61	1.47
FRENCH FRANC (4/12)	4.89	4.83	5.85
ITALIAN LIRA (4/12)	1723.8	1718.1	1635.0
CANADIAN DOLLAR (4/12)	1.38	1.39	1.38
MEXICAN PESO (4/12)	6.175	6.465	3.364

Sources: Major New York banks. Currencies expressed in units per U.S. dollar, except for British pound in dollars

data in the production indicators are seasonally adjusted in computing the BW index (chart); other components (estimated and not listed) include machinery and defense ment. 1=Western Wood Products Assn. 2=Southern Forest Products Assn. 3=Free market value NA=Not available r=revised NM=Not meaningful

THE WEEK AHEAD

SING STARTS

day, Apr. 18, 8:30 a.m. ▶ March ng starts are expected to have risen to nual rate of 1.35 million, up from million in February. That's the median ction of a survey of economists by MMS national, a unit of McGraw-Hill Inc. weather, which also inflated March ruction employment, will buoy the number. Weak demand and downbeat ers' surveys suggest little strength this g, though.

RNATIONAL TRADE

esday, Apr. 19, 8:30 a.m. ▶ The MMS y expects the February balance of in goods and services to post a deficit of $10.2 billion, less than January's $12.2 billion gap. Exports are expected to rise, but they will be held back by another steep drop in shipments to Mexico. Imports will also edge lower, according to the survey, but by less than exports. The trade deficit is on track to exert a strong negative influence on first-quarter growth in real gross domestic product.

UNEMPLOYMENT CLAIMS

Thursday, Apr. 20, 8:30 a.m. ▶ New weekly claims for jobless benefits appear to be moving into the 340,000-to-350,000 range for the week of Apr. 15. The four-week average, which has been trending higher recently, stood at 342,500 at the end of March—the most in nine months. That rise reflects at least a slight easing in labor market conditions as retail sales and industrial output have slowed.

FEDERAL BUDGET

Friday, Apr. 21, 2 p.m. ▶ The MMS survey expects the U.S. Treasury to report a March deficit of $40 billion, up from $32.3 billion in March of last year. Even so, the federal deficit is on track to finish the year some 10% to 15% below last year's deficit of $203.3 billion. Although delays in tax refunds may be boosting receipts temporarily, the deficit may yet come in below the Congressional Budget Office's projection of $176 billion.

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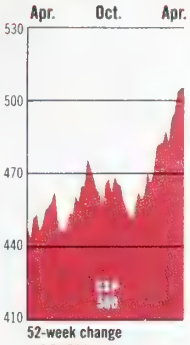
nvestment Figures of the Week

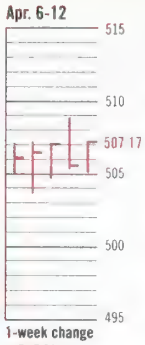
MENTARY

ckly dollar continued to ate the financial markets. ver, speculation that the ese central bank may cut ountry's discount rate d the greenback on Apr. 12. tocks pretty much treaded during the week, and bonds also lackluster, despite fa- e inflation news. Traders nimpressed by word that nsumer price index rose in March, the smallest gain ee months. The bond market hrugged off news that U.S. acturing may be slowing.

STOCKS

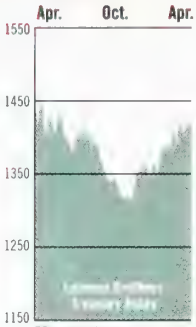


52-week change +13.6%

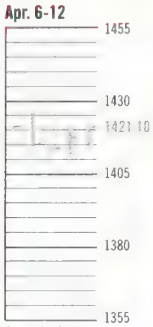


1-week change +0.3%

BONDS

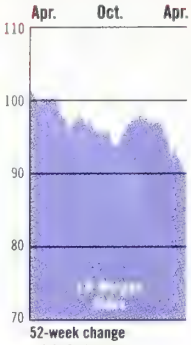


52-week change −0.6%

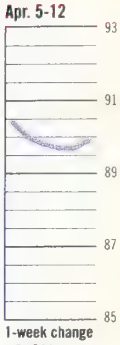


1-week change +0.2%

THE DOLLAR



52-week change −11.0%



1-week change −0.6%

RKET ANALYSIS

STOCKS	Latest	% change Week	% change 52-week
ONES INDUSTRIALS	4197.8	−0.1	14.6
ZE COMPANIES (S&P MidCap Index)	184.6	0.8	8.5
COMPANIES (Russell 2000)	263.0	0.7	5.3
MPANIES (Russell 3000)	289.0	0.5	12.1

IGN STOCKS	Latest	% change (local currency) Week	% change (local currency) 52-week
N (FINANCIAL TIMES 100)	3209.8	0.6	2.0
(NIKKEI INDEX)	16,344.9	2.9	−18.5
TO (TSE COMPOSITE)	4296.5	0.3	1.1

FUNDAMENTALS	Latest	Week ago	Year ago
90-DAY TREASURY BILL YIELD	5.78%	5.83%	3.64%
30-YEAR TREASURY BOND YIELD	7.36%	7.37%	7.26%
S&P 500 DIVIDEND YIELD	2.60%	2.60%	2.92%
S&P 500 PRICE/EARNINGS RATIO	16.6	16.6	20.4

TECHNICAL INDICATORS	Latest	Week ago	Reading
S&P 500 200-day moving average	468.5	467.0	Positive
Stocks above 200-day moving average	61.0%	62.0%r	Neutral
Speculative sentiment: Put/call ratio	0.76	0.81 r	Positive
Insider sentiment: Vickers sell/buy ratio	1.10	1.09	Positive

BLOOMBERG FINANCIAL MARKETS

DUSTRY GROUPS

-WEEK LEADERS	% change 1-month	% change 12-month	Strongest stock in group	% change 1-month	% change 12-month	Price
ENSE ELECTRONICS	15.3	16.7	E-SYSTEMS	45.0	47.5	63 5/8
CIALTY APPAREL RETAILERS	12.9	−19.1	THE LIMITED	21.1	6.6	22 1/4
INGS AND LOANS	11.4	11.4	H.F. AHMANSON	12.0	16.1	19 7/8
LINES	11.3	3.9	DELTA AIR LINES	12.5	42.7	63 1/8
IMINUM	11.1	19.7	ALCAN ALUMINIUM	13.6	26.4	28 1/8

-WEEK LAGGARDS	% change 1-month	% change 12-month	Weakest stock in group	% change 1-month	% change 12-month	Price
DADCASTING	−6.4	6.8	TELE-COMMUNICATIONS	−12.6	−2.8	19 7/16
MEBUILDING	−4.2	−28.2	KAUFMAN & BROAD HOME	−8.0	−37.2	12 7/8
OHOLIC BEVERAGES	−3.1	3.0	SEAGRAM	−11.2	−6.5	26 7/8
ERTAINMENT	−1.9	14.9	TIME WARNER	−3.3	−3.3	37
DES	−1.6	12.6	STRIDE RITE	−7.8	−16.1	11 3/4

TUAL FUNDS

MORNINGSTAR INC

ERS

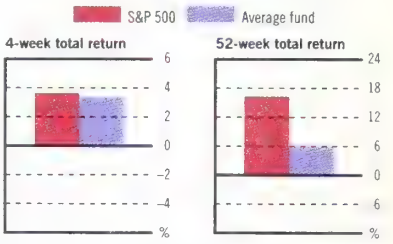
week total return	%
ESCO LATIN AMERICAN GROWTH	19.8
RGAN STANLEY LATIN AMERICAN A	17.7
MASTER EMERGING AMERICAS	17.2

ek total return	%
ELITY SELECT HEALTH CARE	45.6
IGMAN COMMUNICATIONS & INFORM. A	41.8
VETT SMALLER COMPANIES	37.7

LAGGARDS

Four-week total return	%
WARBURG PINCUS JAPAN OTC SERIES 2	−9.8
AMERICAN HERITAGE	−5.1
MERRILL LYNCH TECHNOLOGY B	−4.7

52-week total return	%
MONITREND GOLD	−42.3
STEADMAN OCEANOGRAPHIC TECHNOLOGY	−37.4
BT INVESTMENT LATIN AMERICAN EQUITY	−36.3



LATIVE PORTFOLIOS

DRI/McGRAW-HILL

amounts represent the it value of $10,000 ed one year ago h portfolio

ntages indicate ay total returns

U.S. stocks	Foreign stocks	Money market fund	Treasury bonds	Gold
$11,657	$11,279	$10,515	$10,505	$10,334
+0.06%	+2.56%	+0.19%	−0.07%	−0.37%

on this page are as of market close Wednesday, Apr. 12, 1995, unless otherwise indicat- ustry groups include S&P 500 companies only; performance and share prices are as of market close Apr. 11. Mutual fund returns are as of Apr. 7. Relative portfolios are valued as of Apr. 11. A more detailed explanation of this page is available on request. r=revised NA=Not available

ADVICE TO JAPAN: START IMPORTING MORE

Currency traders call it the "red zone," that dangerous area where the dollar drops to 75 yen. With the dollar not much above 80, alarm bells are going off. The greenback is firming against the German mark and the yen stands exposed as the global problem currency, which no amount of financial fine-tuning can fix. The dollar crisis has become a yen crisis, in truth an import crisis. Japan's only hope of regaining control of its currency is to lower its trade barriers.

The faint sound of protectionist walls crumbling may already be heard. Some Japanese politicians are now openly talking of accepting the original Clinton Administration plan for specific U.S. import targets. Liberal Democratic Party policy chief Koichi Kato, for example, is saying that Japan should accept a concrete plan to cut its trade surplus by a specific date and amount. Masaru Hayami, chairman of the Association of Corporate Executives, says Japan should "completely deregulate and liberate its markets."

The yen problem goes far beyond the U.S. The Japan that says "no" to the U.S. on trade is also saying "no" to the rest of Asia. Malaysian Prime Minister Mahathir Mohammed, the most pro-Japan leader in Asia, complains: "Manufactured products were and still are almost entirely restricted—except for those manufactured by Japanese-owned industries located overseas." Malaysia is not alone: The collective trade deficit of the six-member Association of South East Asian Nations with Japan is higher than America's.

Japan is also saying "no" to renegotiating Asia's huge yen-debt overhang. Japan has lent Asian countries $100 billion in yen credits, but these nations' exports go mainly to the U.S., which pays in dollars. Thus, Asia must pay off its yen-denominated debts with depreciating dollars. As they sell dollars and buy yen to pay off their debt, Asian countries send the super yen even higher.

The policies erected by Japan to protect its domestic ma ket are now doing the opposite. By curbing imports, Jap has created a monster yen that is eroding the competitivene of the nation's manufacturers. The most efficient industries a abandoning the country to set up shop offshore, leaving t most inefficient behind. It is a disastrous policy for any natio

What else short of a breakthrough in trade talks can st the yen from hitting 60 or 70 to the dollar? Washington is n about to help by raising interest rates. After all, U.S. inflati is low, the economy is healthy, and the stock and bond ma kets are performing well. The solution has been staring Tok in the face for more than a decade—autos. Two-thirds of t U.S. trade deficit is in cars and parts. It's time to do a de

This is what it should look like: Japanese manufacture who own the auto dealers in Japan, should tell them to beg offering American cars. The same Japanese auto make who have previously committed themselves to buying $ billion of American-made parts, should double their purcha es. Finally, the Japanese government should begin to loos its stringent regulations on foreign cars. It costs $10,000 p Jeep just to meet Japanese safety inspections.

Detroit, for its part, must tailor cars to the Japanese m ket. Chrysler is already making right-hand-drive Jeeps. Fo and General Motors have made right-hand-drive autos Britain for decades. Why not in Japan?

Washington has one major card to play. The Comme Dept. administers "foreign trade zones" at Japanese au plants throughout the U.S. The zones let companies imp Japanese-made components tariff-free. Despite the availabil of cheaper U.S. parts, the Japanese persist in importing lions in components. Unless Japan opens its market to Am ican cars, there is no reason to provide subsidies to Japane imports. This is a quid pro quo that should be enforced.

HAIL TO THE CEO. WHY JUST THE CEO?

Pay for performance is an excellent idea, and last year Corporate America received one heck of a lot of performance for the pay it gave CEOs. In a year when profits shot up a staggering 34%, the average salary and bonus of chief executives climbed only 10%, to $1.4 million, says BUSINESS WEEK's 45th annual Executive Pay Scoreboard. Not bad.

Not the whole truth, either. Under heavy pressure from institutional holders and regulators, companies have been shifting more and more of CEOs' pay into stock options. That ties compensation directly to stock performance. The more the shareholders make, the more the CEOs get. Fine.

But last year, the stock market performed dismally, with sharply rising interest rates canceling any benefit from higher earnings. So most CEOs tucked their options away for a more auspicious moment. The first quarter of this year, with the Standard & Poor's 500-stock index up 9%, provided t moment. Chief executives probably exercised options i big way. That means total compensation will probably s rocket in 1995. Which is just fine, too. They earned it.

But that doesn't mean the CEOs deserve it all. Increasi ly, boards are taking a chief-executive-as-superstar appro to compensation, allocating up to 25% of all options to person. There certainly are superstars in the corporate u verse, such as AlliedSignal Inc.'s Chairman and CEO Lawre A. Bossidy, who has boosted the company's market va from $4.5 billion to $10 billion during his four-year re Yet in the global marketplace, no one individual ever batt alone. In an era obsessed with team play and horizontal ganizations, the reward for victory at many companies s goes to the top-of-the-pyramid, hierarchical boss. Too bad

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